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A STUDY
of
EXCHANGE EQUALIZATION FUNDS OF THE 1930's

by

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B. A. National Taiwan University, 1954

Presented

in partial fulfillment of the requirements for the degree of
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1956

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CHAPTER I

INTRODUCTION

During the past fifty years, the world economy has undergone a drastic change. One of the significant developments in international financial affairs in recent years has been the establishment of various institutions for international cooperation. The Bretton Woods Conference was largely the result of the development of economic nationalism and the failure to restore freedom in international transactions during the interwar period.

With the breakdown of the gold standard, the more-or-less automatic adjustment in the international economic system came to an end. The relatively smooth functioning of international transactions was interrupted. Economic activities between nations moved from a situation of relative freedom towards the increasing use of government controls.

As a substitute for the mechanism of the gold standard, the Exchange Equalization Funds were founded in the leading countries to help revive a degree of multilateral trade which had existed under the fixed exchange standard. The idea behind the establishment of the Exchange Equalization Funds was to combine the advantages of relatively stable exchange rates, at least in the short run, with some degree of long run flexibility to prevent too drastic a change in domestic prices.

The abolition of the gold standard resulted in a violent fluctuation of exchange rates. It was to remove these undue

fluctuations of foreign exchange that Great Britain established the Exchange Equalization Account in July, 1932.¹ Other Exchange Stabilization Funds were set up in various countries in the succeeding years.

This study deals with the mechanism and the operation of the Exchange Equalization Funds. But in order to understand the whole story of their development, it is of interest to our study to provide a brief account of the emergence of the international economy under the banner of free trade.

In the seventeenth and early eighteenth centuries, mercantilists emphasized the desirability of a favorable balance of international trade and, therefore, recommended various state regulations to accomplish the objective.² It was the Mercantilists who thought that the increasing stock of precious metal of a country would contribute to the well-being of its people and the strength of the state.

As the creator of the classical theory of economics, Adam Smith held that only the division of labor and freer trade could promote the economic interests of the people in a nation. The Mercantilists' view of the continuous favorable balance of foreign

¹ See The Economist, Vol. CXVI:sup 6-8, May 13, 1933.

² Sir Francis Bacon (1561-1626) wrote in 1616: "The realm is much enriched of late years, by trade of merchandise which the English derive in foreign parts; and, if it be wisely managed, it must very much increase the wealth thereof; care being taken, that the exportation exceed in value the importation; for then the balance of trade must of necessity be returned in coin or bullion." Enke and Salera, International Economics, p. 193.

trade was contested by Smith on the ground that it would exert unnecessary restraint on international trade.

The theory of Adam Smith was adhered to and strengthened by David Ricardo and other classical economists. Acceptance of laissez faire doctrine was, perhaps, the basis for the state of relative stability which the world economy enjoyed for a period of nearly one century before 1914.

Adam Smith clearly enunciated the principle of free trade. The arguments in its favor, he stated, rested on the maximization of production by specialization. David Ricardo analysed this principle further. If a country specializes in the production of those commodities which it can produce with the least cost or the greatest comparative advantage and trade its products for goods which other countries can produce more cheaply, the country will not only produce the greatest possible output but will gain from trading with another country. A country will obtain a larger quantity of goods by specialization and trade than by trying to produce everything itself.

For centuries before the publication of Adam Smith's An Inquiry into the Nature and Causes of the Wealth of Nations in 1776, international trade had been playing a significant role in the economic life of many countries, especially those coastal countries like Britain, France, Spain and Holland.

During the last quarter of the eighteenth century, the Industrial Revolution brought about an increase in productivity and development of transportation. The development of transportation again facilitated the increasing volume of international trade. Here were

the tendencies toward the realization of free trade.

The developing foreign trade was hindered in the war-affected areas in Europe during the Napoleonic War. But trade in other parts of the world continued to prosper. In 1815, at the termination of the War, the Corn Laws were introduced in Great Britain to protect landlords from bankruptcy. This protective measure became a great obstacle to freer international trade.

In the second quarter of the nineteenth century, there was a free trade movement in England aiming at the abolition of the Corn Laws and the adoption of a free trade policy. By the efforts of the Anti-Corn Law League, the enforcement of the Corn Laws had been relaxed as time passed. But it was not until 1846, that the complete abandonment of protective regulation and the full realization of free trade was effected.³

By mid-nineteenth century, Great Britain had risen to the predominant economic power of the world and its trading connections with other countries had been firmly established. Its greatness in productivity, finance, shipping and trade enabled it to enjoy an unprecedented prosperity. Because of the success of Great Britain, the free trade movement was extended to other countries in the form of commercial treaties. By the 1860's, many trade agreements were signed under the leadership of Great Britain which were based on a principle of reciprocal concessions.⁴

³ See Condliffe, J. B., The Commerce of Nations, chapter VIII.

⁴ Ibid., page 223.

In spite of the economic development under the free trade policy, an extension of tariffs took place in the last decades of the nineteenth century. In some cases, tariffs were imposed to protect the developing "infant industries".⁵

Although completely free trade did not exist for a few decades, international transactions continued to increase under protectionism both in volume and variety as international specialization increased. Food and raw materials were needed in the industrialized countries. Manufactured goods had to be exported to pay for the importations. The economic development resulted in a greater interdependence among nations.

Statistics of the value of international trade are available only from 1870, but it has been estimated that the value of world trade had increased eight times from 1830 to 1878.⁶ The annual average value of foreign trade between 1876 and 1880 was 13,070 million dollars according to figures published by the League of Nations.⁷ This figure consisted of 8,300 million dollars in primary products and 4,770 million dollars in manufactured items. Mechanical achievements and the improvement in transportation enabled a country to consume products from all parts of the world in great quantity. The value of world trade at the turn of the nineteenth century was 22,541 million dollars at 1913 prices. In 1913, the year before the

⁵ Condliffe, J. B., The Commerce of Nations, page 229.

⁶ Ashworth, W., A Short History of the International Economy 1850-1950, page 165..

⁷ League of Nations, Industrialization and Foreign Trade, page 157.

outbreak of the World War I, the figure of 40,500 million dollars was reached. In other words, value of world trade increased from 53.1 in 1900 to 100 in 1913.⁸

The economic activities of the nineteenth century were characterized by the increasing importance of specialization of production. It was the development of transportation and the efficient operation of the institutions of international settlement which enabled the nations of the world to expand their foreign trade. Exchange rates were reasonably stable and currencies of different nations were readily convertible; the gold standard was first adopted by Great Britain in 1816 and in the 1870's financially leading countries such as Germany, France and the United States, fixed the value of their monetary unit in terms of its gold content.⁹ The adoption of gold as the monetary standard by those countries had brought the international gold standard into existence. This international gold standard contributed greatly to the smooth functioning of multilateral trade and settlement.

We shall find that the establishment of the Exchange Equalization Funds may be regarded as an important staging point in the transition from the breakdown of the international gold standard to the setting up of the International Monetary Fund. It will be shown also

⁸ League of Nations, Industrialization and Foreign Trade, page 157.

⁹ Germany adopted the gold standard in 1871, France in 1874 and the United States in 1879. The United States was on bimetallic standard before that time. See Chandler, L. V., The Economics of Money and Banking, pp. 119-125.

that the working of the Exchange Equalization Funds in the 1930's was limited by the low level of confidence which was associated with the after-effects of World War I and the impact of the Great Depression. Fuller international cooperation has been achieved in the post World War II period through the Conference at Bretton Woods.

CHAPTER II

INTERNATIONAL FINANCE AFTER 1914

Before World War I, monetary systems throughout most of the world were on the gold standard. A fixed relationship between different monetary units was maintained by their gold content, and the adjustment of the exchange rates was at least partly automatic. Legal tender money was convertible into gold. The government or central bank could buy and sell unrestricted amounts of gold at a constant price. There were no restrictions placed upon imports and exports of gold. With the so-called "rules"¹ gold standard countries were able to secure adjustment when disequilibrium in the balance of international payments occurred. The result of the partly automatic, partly regulated gold standard was maintenance of stable rates of foreign exchange.²

When war broke out in Europe in 1914, one immediate step taken by the authorities was the abandonment of the gold standard. The right to free export and import of gold, the most important mechanism of the gold standard, was suspended in the belligerent countries and the majority of neutral states.³

One of the immediate reasons for the abolition of the gold standard upon the outbreak of the war was the need to preserve the

¹ The outflow and inflow of gold would bring about adjustment in disequilibrium through credit structure and price level.

² Compare Boulding, E. E., Economic Analysis, pp. 96-98.

³ See Chandler, L. V., The Economics of Money and Banking, pp. 127-130.

gold reserve of central banks as far as possible. The central bank was legally required to maintain as reserve a certain amount of gold in relation to its note issue. Any reduction in the gold reserve of the central bank, it was believed, might destroy confidence in a country's currency. Gold was also recognized as a means to maintenance of wealth and final solution to payments. For both these reasons the authorities believed that the War would create uncertainty and an increasing demand for gold.⁴

Following the abandonment of the gold standard many countries adopted a paper standard. The value of paper money was determined largely by the scarcity of the currency recognized as a means of payment. In spite of the fact that a certain amount of gold was retained as reserve, the value of paper currency depreciated to some extent as governments secured necessary funds by creating artificial purchasing power.⁵

After the outbreak of World War I in 1914, almost all of the belligerent countries and neutral nations were subject to some degree of inflation. There was the immediate increase in public expenditure for financing the War, but not every country was able to meet the requirements out of ordinary revenue sources. Even if the increase in war expenditures was accompanied by a reduction in the volume of ordinary expenditures, the value of these ordinary expenditures was increased as a result of the rise in prices.

⁴ See Cassel, G., Money and Foreign Exchange After 1914, pp. 3-6.

⁵ Ibid., pp. 67-68.

Budgetary deficits appeared in most of the belligerent countries.⁶

In all the belligerent countries, governments had to resort to unusual methods of raising funds by creating artificial purchasing power.⁷ Money was required to finance the war, but there was no possibility that taxation or tariffs could be increased immediately. Although the governments later on could secure some money from usual sources, such as borrowing or selling investments abroad, this was a small amount as compared with the requirements of war expenditures. Therefore, it was impossible for the belligerent countries to prevent the issue of additional paper money.

Inflation was not confined to belligerent countries; it spread to neutral nations very rapidly,⁸ the United States included. The needs for state finance and the demand from the belligerent countries for credits caused the neutral countries to create artificial purchasing power.⁹

Although free export and import of gold was suspended from the outbreak of the war, gold did not entirely remain in the central

⁶ Chandler, L. V., The Economics of Money and Banking, page 128.

⁷ Einzig, P., World Finance 1914-1935, page 35.

⁸ Cassel, G.; Money and Foreign Exchange After 1914, page 11.

⁹ The neutral nations granted credits "...to the belligerents far exceeded the amounts their available funds should have allowed, was mainly due to the interest neutral states had in keeping up their exports." The belligerent countries were unable to make entire payment for their imports because of insufficient export, therefore, they had to ask credit for importation. Cassel, G.; Money and Foreign Exchange After 1914, page 12.

banks of the belligerent countries. It was used to a large extent in payments for war materials from abroad or to support loan operations in foreign countries. Belligerent countries commonly imported more than they could export; therefore, it was necessary to ship gold to make up the difference. Since the belligerent countries purchased their war necessities from neutral nations, gold found its way from belligerent to neutral states. The United States, due to its neutral position in the early part of the war and its position as a large supplier of war materials, was the country which absorbed the largest amount of gold during the war period.

As a result of the gold movements during the war, the holdings of gold reserve of belligerent countries--Belgium, France, Italy and Austria-Hungary--were less than what they were before the outbreak of the war. The gold reserve of those belligerent countries on the European Continent decreased from 1556.2 million dollars in 1913 to 1236.2 million dollars in 1921, a net deduction of 320 million dollars.¹⁰ Great Britain, due to its independence from the direct damage of the war and the strength gained before 1914, had increased its gold holding between 1913 and 1921. The situation in the neutral nations¹¹ was quite different, and a net increase of 1478.5 million dollars was recorded. Their holdings in 1913 were

¹⁰ Cassel, G., Money and Foreign Exchange After 1914, page 67.

¹¹ Sweden, Norway, Denmark, The Netherlands, Spain, Japan, Switzerland and Argentine. Argentine, Japan and Spain were belligerent countries. But we included these countries here because they did not receive damages directly from the war.

536.1 million dollars and in 1921 they were 2014.6 million dollars. In the meanwhile, the United States had built up its gold reserve from 691.5 million dollars in 1913 to 2529.6 million dollars in 1921, a net increase of 1838.1 million dollars.¹²

During the war, various methods of exchange control were adopted because of necessity. Inflation resulted in depreciation of exchanges and it was to counteract this tendency that exchange restrictions and controls were introduced. Import restrictions were imposed to assure adequate funds for purchasing war necessities.

The rise in prices was relatively moderate in the early stages of the war. The general public did not realize that deficit spending, which was accompanied by a reduction in production of consumer goods, would bring about a rise in commodity prices. When inflation reached its advanced stages, a series of price controls and rationing was introduced. Therefore, the impact of the increase in disposable income was not fully felt on the price level.

When the war ended, the degree of inflation varied greatly among belligerent countries and neutral nations. The money supply had been increased considerably in the neutral nations, but their prices rose to a relatively lesser extent because their supply of commodities for consumption was increased during the same period. The situation was quite different in the belligerent countries. The supply of commodities had not increased but decreased with the

¹² Cassel, G., Money and Foreign Exchange After 1914, page 67.

increasing quantity of means of payment.¹³

Since the agreements for the settlement or renewal of debts, which existed before the war, were suspended after 1914, the state of relative equilibrium in international finance was interrupted. International financial affairs underwent a fundamental change. New York had risen to be an important financial center of the world as a result of the war.¹⁴

In order to restore the smooth functioning of international trade and finance after the war, re-establishment of exchange rates was required because of the variation in the degree of inflation and the change in relative productivity.

It was to deal with the problem of the re-establishment of the exchange rates in the changed economic situation that Gustav Cassel suggested a theory of purchasing power parity as a solution. He said that the exchange rates should be set on the basis of the relative change in the purchasing power of various currencies.

Our willingness to pay a certain price for foreign money must ultimately and essentially be due to the fact that this money possesses a purchasing power as against commodities and services in that foreign country. On the other hand, when we offer so and so much of our own money, we are actually offering a purchasing power as against commodities and services in our own country. Our valuation of a foreign currency in terms of our own, therefore, mainly depends on the relative purchasing power of the two currencies in the respective countries.¹⁵

¹³ Einzig, P., World Finance 1914-1935, pp. 39-40.

¹⁴ See Ashworth, W., A Short History of the International Economy 1850-1950, pp. 186-188.

¹⁵ Cassel, G., Money and Foreign Exchange After 1914, page 138.

Cassel emphasized the importance of the purchasing power parity being calculated on the basis of the fall in the value of money since 1914. In other words, the exchange rates should be determined on the basis of the value of different currencies which existed at the time of international equilibrium and of the change in this purchasing power. This is to say that if the degree of inflation is more violent in one country than in the other, the currency of the country had depreciated to a larger extent and its purchasing power should be smaller in terms of another currency.

To achieve the purpose of calculating the purchasing power parities which were to be adopted as exchange rates between paper moneys in the post-war world, a knowledge of the basis of the pre-war exchange rates and of the degree of inflation of different currencies was required. Cassel said:

...the exchange rate between two countries must always fix itself in accordance with the price level in either country so that a certain amount of trade between them becomes possible...that trade between two countries can not, as is frequently imagined, be nullified or even hindered through the level of prices in one of the countries being high.¹⁶

The theory of Cassel's purchasing power parity was abandoned because of the difficulty in selecting an adequate index number, that is to say, the relative equilibrium of international trade might be affected by many other factors such as the change in trade methods. An example of this was the imposition of exchange controls.

There had been an opinion that everything would return to

¹⁶ Ibid., page 143.

normal with the cessation of hostilities. Prices were to fall, freedom would be returned to the foreign exchange market and the supply of commodities would be increased. As expected, prices showed a decline late in 1918 and early 1919. But before long, inflation resumed and prices started their rising trend. An explanation was that huge amounts of public debts had been accumulated during the war and it was impossible for the governments to balance their budgets because of the requirements of post-war rehabilitation expenditures. In addition, the slowness of the increase of commodity supply in relation to the increase in demand pushed prices higher.¹⁷

The post-war inflation continued until the summer of 1920 when deflationary measures were taken by various countries, such as Great Britain and the United States, to halt the inflation. Interest rates were raised and credit restrictions were imposed. As a result, there was a decline in commodity prices.¹⁸

After 1921, the world divided into two groups so far as inflation or deflation was concerned. In the United States, Great Britain and some of the neutral nations of Europe, the deflationary measures taken in the previous year resulted in a state of reasonable stability. In the other group of countries such as Germany, Austria and Hungary, inflation not only continued, but assumed major proportions.

In the countries of the inflationary group, Germany suffered

¹⁷ Einzig, P., World Finance 1914-1935, pp. 56-61.

¹⁸ Ibid., page 72.

the most disastrous effects upon its economy. The exchange rate between the German mark and the dollar was 4.20: 1 at par. It fell to 270: 1 in November, 1921. A year later, at the time when the mark was withdrawn from the circulation, the ratio fell to 4,200,000,000: 1.¹⁹

As the inflation went on in Germany, there were considerable flights of capital as well as reparation payments, which were followed by a depreciation in the exchange. Consequently price levels rose in the home market concerned and the rising prices again tended to accentuate the existing inflation.²⁰ At last, the inflation was ended with financial collapse.

After the war, there had been an endeavor to return to a pre-war state of international financial affairs. Exchange control was to be abandoned, and the gold standard was to be restored. But the war had brought about a fundamental change in the world economic situation. An increased volume of liquid funds transferred among the world financial centers at frequent intervals. There were also increased fluctuations in the balance of trade. Besides, there was the increase in speculation in exchanges. Consequently, tariffs and quotas in many cases had risen and exchange controls were maintained by many economies. So great was the change in the economic condition of the post-war world that it was impractical to consider an early return to the pre-war state of affairs.

¹⁹ Ashworth, W., A Short History of the International Economy 1850-1950, page 191.

²⁰ Einzig, P., World Finance 1914-1935, page 76.

The struggle to revive the international gold standard was made all the more difficult also because most countries did not have adequate holdings of gold for the purpose. The uneven distribution of gold, an effect of the war, was seen in the fact that at the end of 1919 the Federal Reserve Bank of the United States and Treasury held 520 million pounds, while the central banks and treasuries of Great Britain and France retained 263 million pounds of gold out of the estimated sum total of 1335 million pounds of gold held in central banks and treasuries of the countries of the world.²¹

"...The distribution of this sum between different countries is exceedingly uneven and bears no steady proportion to the volume of their economic activities..."²²

Unable to restore the gold standard because of the existing shortage and/or maldistribution of gold stock in the post-war years, the gold exchange standard was adopted as an alternative in some countries. Under this standard, any country that did not have a sufficient supply of gold could maintain a fixed relationship between gold and its currency by establishing a fixed rate of exchange between its currency and the currency of a major trading power which was on the full gold standard. The gold exchange standard countries were not bound to redeem their notes in gold coin, or to buy or sell gold bullion.

The years 1924 and 1925 were important in the economic history

²¹ Keynes, J. M., A Treatise on Money, Vol. II, page 297.

²² Ibid., 297.

of the post-war world. It was in 1924 that all of the inflationary countries in Europe were able to stabilize their currencies and achieve their first balanced budgets since the outbreak of the war. The world currency situation was much improved. Economic expansion, which had been interrupted since 1914, was resumed. "It was the first year in which the volume of world trade passed its pre-war level...1925 was also the first year in which European primary production reached and exceeded the level of 1913;..."²³ The index of manufacturing for the world as a whole was 121 in 1925 as compared with 100 in 1913.²⁴ Many signs indicated that the world was on the way to prosperity. The achievement of stability of currency and balanced budgets enabled many countries to return to the gold standard but in a modified form.

During the post-war years, cooperative efforts were made internationally to stabilize value of currencies. New York banks made large loans to those countries which were in need of gold in order to restore their gold standard.²⁵ By June, 1924, the currencies of Sweden and Austria were able to establish a connection with gold. And in April, 1925, Great Britain placed its currency on a gold basis. Austria, New Zealand, the Netherlands, South Africa and Hungary followed suit. Between July, 1925 and July, 1927, Chile, Finland, Canada, Belgium, Denmark and India restored the fixed

²³ Lewis, W. A., Economic Survey 1919-1939, pp. 34-35.

²⁴ Ibid.

²⁵ See Einzig, P., World Finance 1914-1935, chapters XVI, XVII and XVIII.

relationship between gold and their currencies. Argentina, Poland, Italy, Norway, Greece and France returned to gold in the following months.²⁶

The British authority's decision to return to the gold standard at pre-war parity met with opposition. Mr. Winston Churchill was at that time Chancellor of the Exchequer and responsible for this decision; experience before 1914 had been of 4.86 dollars to the pound and "prestige" demanded a return at the same level of exchange with gold. J. M. Keynes argued vigorously against the restoration of prewar parity. He said:

Money-wages, the cost of living, and the prices which we are asking for our exports have not adjusted themselves to the improvement in the exchange, which the expectation of your restoring the Gold Standard, in accordance with your repeated declarations, has already brought about. They are about 10 percent too high. If, therefore, you fix the exchange at this gold parity, you must either gamble on a rise in gold prices abroad, which will induce foreigners to pay a higher gold price for your exports, or you are committing yourself to a policy of forcing down money wages and the cost of living to the necessary extent... It is certain to involve unemployment and industrial disputes...there will be great depression in the export industries...Nevertheless, the cost of living will not fall sufficiently and, consequently, the export industries will not be able to reduce their prices sufficiently, until wages have fallen in the sheltered industries. Therefore, you have to see to it that there is unemployment in the sheltered industries also.²⁷

The disequilibrium in the cost of living and the level of

²⁶ Ganteinbein, J. W., Financial Questions in United States Foreign Policy, p. 12.

²⁷ Keynes, J. M., The Economic Consequences of Mr. Churchill, pp. 12-13.

wages between the dollar and sterling can be seen in the following table:

Level of the Cost of Living and Wages (Prewar 100)					
	United States cost of living	Great Britain cost of living		Great Britain wages	
	(gold)	(gold)	(sterling)	(gold)	(sterling)
March 1924	156	157	178	155	176
December	158	174	181	172	179
March 1925	158	176	179	177	181
July*	158	173	173	180	180
*Provisional					

Source: Keynes, J. M., The Economic Consequences of Mr. Churchill, p.7.

As Keynes had predicted, the return to the old parity brought difficulty to British industry. There were the coal strike and a general strike in 1926, the year after the restoration of the gold standard. Unemployment and depression put the hopes that the adjustment would be brought about through reducing prices and costs in Great Britain to an end. It was also realized that the adjustment through a rise in world prices to the British level was hopeless.²⁸ As the result of the failure of the readjustment, the disequilibrium of the price level and consequently the cost of living continued in succeeding years.

During the last part of the 1920's, there was a speculative boom in the United States which reached its peak in October, 1929. The slump which first appeared in the Wall Street crash immediately spread an acute economic depression in the United States. Not long later, the wave of great depression crossed the national boundary and

²⁸ See A Treatise on Money, Vol. II, Keynes, J. M., pp. 181-89.

reached into almost every part of the world. Industrial activities had decreased markedly; there was widespread unemployment and incomes were greatly reduced. The decline in industrial activities can be seen in the following indices of industrial production:

	1929	1930	1931 .	1932
Consumer goods	100	90	85	75
Investment goods	100	74	51	31

Source: Lewis, W. A., Economic Survey 1919-1939, page 54.

Supply elasticities in fundamentally manufacturing countries were greater than supply elasticities for primary producing countries. Therefore, the prices did not decline so much in industrialized countries as in the countries producing raw materials. Unemployment, however, was greater in industrialized countries, because those countries producing food and raw materials found themselves unable to reduce their production and their prices declined to a greater extent. Consequently, their income from international trade contracted rapidly. Since they were unable to secure foreign loans to make up the difference between imports and exports, the food and raw material exporting countries were forced to reduce their imports; the value of international trade fell greatly. A comparison of the change in production and trade is shown in the following table:

Volume of Production and Trade, 1929, 1932 and 1937
(1929=100)

	1929	1932	1937
Foodstuffs			
World trade	100	89	93.5
World production	100	100	108

	1929	1932	1937
Raw Materials			
World trade	100	81.5	108
World production	100	74	116
Manufactures			
World trade	100	59.5	87
World production	100	70	120

Source: Lewis, W. A. Economic Survey, 1919-1939, page 58.

After the slump in 1929, the pound sterling was still in the position that it was in 1925 when the pound returned to gold at pre-war parity. Because of rigidity of the currency relationship, the cost of production and price level in Great Britain failed to adjust to the world level. Consequently, the imbalance in foreign trade increased instead of decreasing.

In the last half of July, 1931, the persistent weakness of the pound sterling worked against the continuance of the gold standard. There had been heavy withdrawals of deposits from London by foreign holders. As a result, the Bank of England lost a substantial part of its gold reserve. France, in view of the disadvantage that would be caused should the pound sterling depreciate, had offered its support to sterling.²⁹

A first credit of 50 million pounds and a second credit of 80 million pounds were granted to Britain by both the United States and France.³⁰ But it was a small amount in a time of such great uncertainty and, it helped very little to change the situation.

²⁹ The Economist, Vol. CXIV:sup 9-10, February 13, 1932.

³⁰ Ibid., page 9.

The flight from the pound continued and the credits arranged were used up very quickly.

Through August and September, 1931, sterling was subject to great pressure resulting from the withdrawals of foreign funds, flight of British capital and speculative operations. There was not much choice for Great Britain but to suspend its gold standard on September 21, 1931, six years after its restoration.

Since the pound sterling was overvalued, prices of British commodity were too highly priced in the world market. Therefore, the depreciation or the devaluation of sterling was necessary.

Many foreign holders of the pound sterling suffered serious loss as an immediate effect of the depreciation. But it was evident that Great Britain benefitted by this depreciation; it resulted in an increase of the competitive capacity of British exporting goods in international markets. One example of the devaluation of sterling can be seen in that the dollar-sterling exchange rate fell from 4.86 dollars to the pound on September 21 to 3.94 dollars to the pound on October 1.³¹

A few countries followed Great Britain in going off the gold standard. Most of the currencies of the British Empire, except the Canadian dollar and South African pound, followed the example of the pound sterling immediately. Sweden, Finland and Japan went off gold between September and December, 1931.³²

³¹ Crump, N., The ABC of Foreign Exchange, page 152.

³² See Cantenbein, J. W., Financial Questions in United States Foreign Policy, page 22.

Thus the world divided into two groups of countries. One of them was of those countries which had abandoned the revived gold standard while the other group was of those countries which had maintained their gold standard. This first group was known as the "sterling bloc" and the latter the "gold bloc".

At the beginning of 1932, a few months after the suspension of the gold standard, the pound sterling had gained a substantial strength. The confidence in sterling had been sufficiently restored, through the balanced budget and improvement in export trade. The restoration of confidence in the pound sterling had contributed to the repatriation of British capital from abroad. And the British Government was able to secure some amount of foreign exchange to repay the Franco-American credits granted earlier in the preceding year. There was also a heavy flow of foreign capital to London.

As the flights of foreign capital to London continued, the Bank of England had to buy foreign exchange in order to avoid unnecessary appreciation of the pound sterling in relation to other currencies. Thus British authorities accumulated a substantial reserve and its power in the foreign exchange market became influential. But British authorities decided to give up their control over the movement of foreign exchange early in March, 1932. This decision effected a further appreciation of the pound sterling.³³

After Great Britain went off the gold standard in September, 1931, the pound sterling thus became a freely fluctuating currency

³³ Einzig, P., World Finance 1914-1935, page 240.

until July, 1932. Foreign exchanges fluctuated widely during the period.

It was to counteract the undesirable fluctuations in exchange rates that the British Government established the Exchange Equalization Account in July, 1932, with funds of 150 million pounds under the authority of the Finance Act of 1932.³⁴ The Exchange Equalization Account acted as a stabilizer of foreign exchanges during the succeeding years.

³⁴ For further information on the establishment of the Exchange Equalization Account see: Hall, N. P., The Exchange Equalization Account, chapter III, "The Organization of the Exchange Equalization Account."

CHAPTER III

ESTABLISHMENT OF EXCHANGE EQUALIZATION FUNDS

In spite of the step taken by British authorities to raise interest rates, many hundred millions of pounds in foreign funds were withdrawn from London after July, 1931. This action by foreign holders of sterling deposits caused the suspension of the gold standard in September, only two months after the flight from the pound started.¹ It was not because interest rates in Britain were not high enough, but confidence in the position of the pound had been destroyed.² The withdrawals led to the belief that Britain would not be able to remain on the gold standard and this belief again accentuated the withdrawals. There was a rush on the part of foreign holders to get their money out of London.

An immediate consequence of the withdrawals was the loss of gold reserve by the Bank of England; one example of this was seen in that 5 million pounds of gold was withdrawn on the 16th of July.³ Since the gold reserves were an essential part of the gold standard the heavy drain of the gold reserves made the continuance of the gold standard impossible.

A great relief was felt through Great Britain after the suspension of the gold standard. The sterling exchange rates with

¹ For further information see, the Economist, Vol. CXIV; sup 9-10, February 13, 1932, "Foreign Exchanges", 1931.

² Compare League of Nations, International Currency Experience, pp. 39-40.

³ The Economist, Vol. CXIV; sup 9, February 13, 1932.

other currencies were allowed to adjust freely. Since there had been an overvaluation of the pound when it was on the gold standard, the natural result of the suspension was a depreciation of sterling. The exchange rate between the dollar and the pound fell from 4.86 dollars to the pound to 3.94 dollars to the pound on October 1, 1931, ten days after the suspension. The exchange ratio with the French franc fell from 124.21 francs to 100 francs to the pound on October 1. And the gold price in London rose from 85_s to 140_s per fine ounce from September 21 to October 1.⁴

The depreciation of the pound reversed the foreign trade position of Great Britain. British commodities were high-priced in the international markets when the exchange rates were based on old parity. By the end of 1931, British exports had reached an advantageous position in competition with other countries in the international markets.⁵ The improvement in the British trade position resulted in greater confidence in the pound sterling and, as a result, a trend of flight of capital to London began, especially of those currencies which were on the gold basis; the improvement in British foreign trade is evidenced by the fact that "...the share of Britain in World exports, which had declined from 10.75 per cent in 1929 to 9.36 per cent in 1931, advanced to 9.92 per cent in 1932 and 10.37 per cent in 1933."⁶

⁴ Crump, N., The ABC of the Foreign Exchange, page 152.

⁵ Compare, the Economist, Vol. CXV; 927, November 19, 1932.

⁶ Lewis, W. A., Economic Survey, 1919-1939, page 82.

The United States was one of the countries which suffered from the depreciation of the pound, due to the repatriation of British capital from New York. When the flight from the dollar to the pound began, the dollar exchange rates frequently fell below the gold export point. During the month of October, 1931, there was a heavy outflow of gold from New York which amounted to 337.7 million dollars.⁷ This was the time that the pound gained confidence while the dollar lost it.

In the early months of 1932, confidence in sterling was so firmly established that British authorities had to take steps to counteract the inflow movements of foreign funds to London. It was thought that if an offsetting action were not taken, the pound sterling would be forced to a level of overvaluation, and the appreciation of the pound sterling would surely have deprived British goods of their supremacy in the international markets.

A large purchase of American dollars and French francs was made by the Bank of England to repay the credits which had been granted by America and France during the period of the flight from the pound; at the end of October, 1931, 20 million pounds of the Franco-American credits were repaid.⁸ Whenever there was an offer of foreign currency or currencies, the Bank of England had to be ready to buy those foreign currencies and sell pounds. The Bank of England, in its position as agent of the British Treasury, acted

⁷ Federal Reserve Bulletin, Vol. 18, No. 7, July, 1932, page 440.

⁸ The Economist, Vol. CXIV; sup 9, February 13, 1933.

as stabilizer to prevent violent fluctuations of foreign exchange. In this situation, continuous efforts were made by the Bank of England to control the fluctuations of sterling in terms of other currencies. But "there was, however, a limit to the resources which the Bank of England could legitimately invest in foreign exchange holdings, while it was hardly fair to ask the Bank to assume the risk of heavy loss which these operations in fluctuating exchange markets entailed."⁹

In late 1931 and early 1932, some of the francs and dollars secured by the Bank of England were exchanged for gold. Since there was a large repatriation and flight from the franc and the dollar, the Bank found itself in the position of holding a large quantity of gold and foreign exchange. Therefore it was decided in early March, 1932 to let sterling find its own level in order to avoid further accumulation of dollars and francs.¹⁰ Consequently the pound sterling showed a tendency to appreciate.

In order to eliminate the appreciation of sterling, to avoid increased holding of foreign currencies and to leave some degree of freedom in the foreign exchange market, a solution was needed. Therefore the British Government, in its budget statement of 1932, proposed the establishment of the Exchange Equalization Account which was to play a significant role in international finance in the

⁹ The Economist, Vol. CXVI; sup 6, May 13, 1933. The Bank of England has been a private institution. Since the foreign exchange operations are undertaken in the public interest, it is considered only right to be conducted with public funds.

¹⁰ See Harris, S. E., Exchange Depreciation, chapter XV, also the Economist, Vol. CXVI; sup 6, May 13, 1933, and Pumphrey, L. M., "The Exchange Equalization Account of Great Britain," American Economic Review, Vol. XXXII, No. 4, December, 1942, page 803.

succeeding years.¹¹

In establishing the Account, consideration was given to the facts that the fund must be large enough to eliminate any form of speculation and that the operations of the Account must be determined in secret, for the possession of the knowledge about the operations of the Account by speculators would surely moderate the effectiveness of its actions.

As for the objects of the Exchange Equalization Account, they were stated by Neville Chamberlain, then Chancellor of Exchequer, as follows:

To smooth out the variation caused by three sets of phenomena--- firstly, the seasonal fluctuation; secondly, the operations of speculators, which increase those seasonal fluctuations, and other fluctuations, too; and thirdly, this special flight of capital from other countries for the sake of finding a safer place to stop in for a time.¹²

Since there was no reason to believe that the foreign funds would stay forever in London, the Exchange Equalization Account was designed as a temporary residence for the floating funds.¹³ The Account was also used to keep the movement of "hot money"¹⁴ from affecting the internal banking and credit structure, because it was believed that the foreign money could move to and from London

¹¹ Einzig, P., World Finance, 1914-1935, page 240.

¹² Waight, L., The History and Mechanism of the Exchange Equalization Account, page 11.

¹³ See Paish, F. W., "The British Exchange Equalization Fund", Economica, Vol. II, page 61, 1935.

¹⁴ Those funds which moved from one financial center to another in seeking security or profit were called "hot money".

very quickly if the confidence in the pound sterling changed.¹⁵

The volume of floating funds had increased greatly since the end of World War I, and these funds, in the hands of speculators, moved from one financial center to another at frequent intervals whenever there was a change in feeling of security and potential profitability. For example, if the value of the pound sterling rose, there would surely follow an increase in purchases of the pound by foreigners. These purchasers hoped not only to resell the pound at a profit; they also tried to use these funds for other purposes.¹⁶ After Great Britain went off the gold standard in September, 1931, there was considerable doubt that some gold standard countries were to follow the British example; therefore, many owners of these funds became restless about their safety and transferred their money from one place to another in seeking security.

In his budget speech of April 19, 1932, the day the plan for the establishment of the Exchange Equalization Account was made public, Mr. Neville Chamberlain described the "disturbing influence" which was caused by the transfer of American liquid capital upon the sterling exchange.

"If we are to avoid violent and perilous fluctuations in our currency, especially those which are due to these speculative operations, if we are to enable this country to function effectively as the main financial center of the world, then it is essential for us to hold adequate reserves of gold and foreign exchanges, in order that we may meet any sudden with-

¹⁵ Crump, N., "Stabilization, when as and if", Banking, Vol. XXVIII, 21-23, May, 1936.

¹⁶ Such as purchasing stock of industrial companies.

drawal of short-dated capital and check and repel these speculative movements.

He continued:

...that it will give us a very large and extended power of purchasing exchange. The new powers... will enable us to deal far more effectively than we could otherwise have done either with an unwanted inflow of capital or, if the alternative should again arise, with an outflow of capital from this country.¹⁷

The Exchange Equalization Account was also designed to intervene against speculators in the exchange market at any time without warning.¹⁸ This is to say that the Account could operate in opposition to the speculators in order to offset the effect of their manipulations.

Between September, 1931, when Britain left the gold standard and the time when the United States suspended the gold standard in March, 1933, the movements of the pound sterling became a main factor in determining world prices.¹⁹ So important was the position of Great Britain as a financial center of world trade at that time, that British authorities could exercise a powerful influence on the foreign exchange market.²⁰ The Exchange Equalization Account, which

¹⁷ Comstock, A., "The British Exchange Equalization Account", the American Economic Review, Vol. XXIII, No. 4, page 609.

¹⁸ Compare, Pumphrey, L. M., "the Exchange Equalization Account of Great Britain," the American Economic Review, Vol. XXXII, No. 4, December, 1942. pp. 803-805.

¹⁹ Sterling was the most important currency among the freely fluctuating currencies at that time.

²⁰ See Einzig, P., World Finance 1914-1935, pp. 239-242.

was established by the Finance Act of 1932, played this role in international finance during the 1930's, although the primary object of the operations of the Account was to eliminate unwanted fluctuations of the sterling exchange.

The Exchange Equalization Account was endowed with resources of 150 million pounds plus approximately 25 million pounds which were transferred from the balance of the credit of the old dollar exchange account at the time it was set up on July 1, 1932.²¹

The Exchange Equalization Account thus began its operation with assets totaling 175 million pounds. The Account operated as a government department under the British Treasury and its operations were carried out in the foreign exchange market, the money market, and the gold market.²² The Account was also able to exercise influence on the stock exchange.

As expressed in the Finance Act of 1932, the duty of the managers of the Account was to invest its funds "in securities or in the purchase of gold in such manner as they think best adapted for checking undue fluctuations in the exchange value of sterling."²³ The purpose of the Account was again stated as to ward off the

²¹ For more detail information see Comstock, A., "The British Exchange Equalization Account," the American Economic Review, Vol. XXIII, No. 4, December, 1933, pp. 608-613.

²² Pumphrey, L. M., "The Exchange Equalization Account of Great Britain," the American Economic Review, Vol. XXXII, No. 4, December, 1942, page 804.

²³ Finance Act, 1932, Section 24(3). Waight, L., The History and Mechanism of the British Exchange Equalization Account, page 166.

effects of capital movements upon the internal banking and credit structure. Therefore, there would not be any credit expansion when foreign capital was sent to London and no credit contraction when foreign capital was withdrawn.²⁴

The characteristics of the Exchange Equalization Account were said to be "simplicity" and "secrecy". The first characteristic, the simplicity of the organization, had caused misunderstanding among the British people during its establishment.²⁵ For example, Colonel Wedgwood moved to amend the chief clause of the fund at the third reading of the Finance Act of 1932 by saying: "...the risks involved to the taxpayers in the use of this fund are very considerable." He continued: "...If the fund is to be used by these methods that we have seen in the last two months then I say that the initiation of the Exchange Equalization Account is going to be disastrous without saving the dollar from going off gold."²⁶

There was also misunderstanding about the sources of the fund and it was feared that the operations of the Exchange Equalization Account would be followed by inflation in Great Britain, or that serious losses would be incurred as a result of its "speculation with the taxpayers' money in the foreign exchanges."²⁷

²⁴ See Crump, N., "Stabilization, when as and if", Banking, Vol. 28, May, 1936.

²⁵ Hall, N. F., The Exchange Equalization Account, pp. 23-24.

²⁶ Comstock, A., "the British Exchange Equalization Account", the American Economic Review, Vol. XXIII, No. 4, December, 1933, page 610.

²⁷ Compare the Economist, Vol. CXVIII; sup 2, May 5, 1934.

The second characteristic "secrecy" was very important in the effectiveness of the operations of the Exchange Equalization Account because any leakage of information to the speculators would reduce the effectiveness of its operations.

When the Exchange Equalization Account was established, it was given Treasury Bills equal to 150 million pounds. The Account could sell these Treasury Bills to acquire sterling. The sterling was then used to pay holders of foreign money. Therefore, the assets of the Account would be changed from Treasury Bills to foreign currencies.

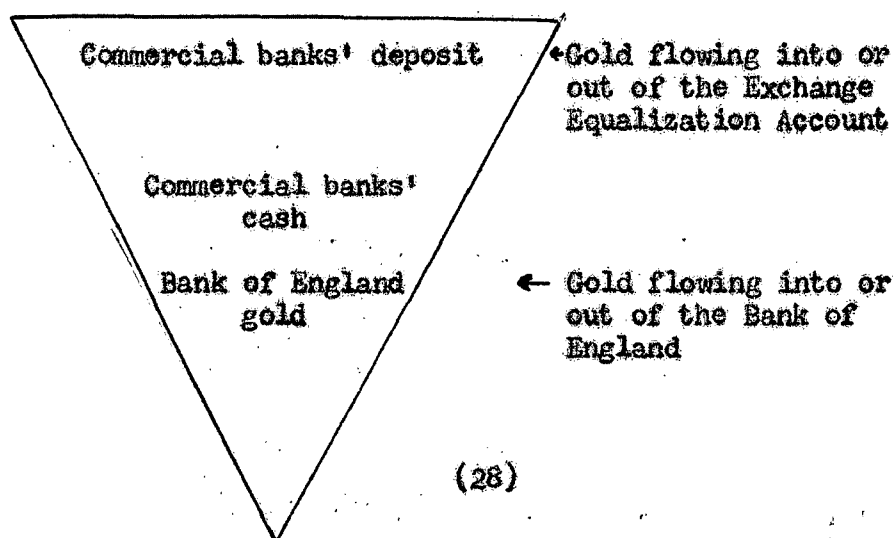
The Account facilitated short-term capital movements and prevented them from disturbing either the exchange or the money supply in the market.

Because it was designed to keep foreign moneys and gold from affecting the British money supply, the Exchange Equalization Account was also called a "buffer" or "shock-absorber." The system under the Exchange Equalization Account was different from that of the gold standard mechanism because gold did not flow into or out of the reserves of the Bank of England, but it only flowed into or out of the gold holdings of the Account. The working of the Exchange Equalization Account was independent from that of the Bank of England. Inflow of foreign funds to London would tend to cause the pound sterling to appreciate, but the working of the Account enabled the movements to be offset by purchase of foreign currency. When funds flowed out of London, the offsetting action by the Account was to sell foreign currency.

When gold flowed into Great Britain and the Exchange Equalization Account bought it, Treasury Bills were used to pay for the gold. After the transaction, the Account had the gold and the commercial banks, bill brokers or the general public held the Treasury bills.

The essential difference in the effects of the gold flow upon the credit and money supply between the gold standard and the Exchange Equalization Account was that when gold was flowing into or out of the Exchange Equalization Account, it did not become the gold reserves of the Bank of England, therefore, it did not affect the internal banking and credit structure as it would have under the gold standard system. The inflow of gold affected the money supply and credit only to the extent of the amount of gold which was shipped to London. Under the gold standard mechanism, when gold flowed into Great Britain it became the reserve of the Bank of England. The gold reserve of the Bank of England is the basis for credit expansion. Assuming that the reserve ratio is 10 per cent, the credit of the commercial banks can be expanded to the extent of 10 million pounds when one million pounds of gold flows into the Bank of England. In the example of the Exchange Equalization Account, inflow of one million pounds of gold can expand the credit of the commercial banks to the extent of one million pounds.

The difference has been illustrated by using the "inverted pyramid" which has been used to explain the bank credit expansion and contraction.



It is clear that, under the gold standard mechanism, the deposits of the commercial banks can be increased by many times the amount of the original increase of gold which has come into the Bank of England. On the other hand, the deposits of commercial banks will be decreased by many times the amount of the original decrease of the amount of gold which has flowed out of the Bank of England. Since the effect of the gold flow is so great, the Bank of England had to raise or reduce interest rates and to discourage or encourage bank loans whenever there were unusual movements of gold.

But under the Exchange Equalization Account, the credit could be expanded or contracted by only the amount of the original increase or decrease of the amount of gold. The effect of gold movement was not so great; the Bank of England had more time to investigate the situation and take proper measures.

As mentioned above, the British Exchange Equalization Account

²⁸ Crump, N., "Stabilization, when as and if", Banking, Vol. 28, May, 1936.

was controlled by the Treasury, but its operations were carried out by the Bank of England. Several writers have written the principles of the working of the Exchange Equalization Account;²⁹ but L.

Waight's description is a leading one. He says:

The first principle is to counter any undue buying or selling of sterling not in any way connected with the normal purchases and sales on commercial account with which it is desired to interfere as little as possible. When, for example, sterling is being bought not for the settlement of goods or services obtained in this country or for interest payments on money formerly borrowed or for any other normal procedure of this kind, but speculatively in anticipation of a profit on the purchase or because foreigners consider that their capital would be safer if converted into sterling, then it is the duty of the E. E. A. to sell sterling in the quantities required so that, supply and demand being equal, the exchange ratios of sterling with other currencies will not fluctuate to any great extent. Similarly, if reason other than normal sterling is subjected to pressure, that is, if it is being offered in large quantities, it is the duty of the E. E. A. to sell foreign currencies or gold and buy sterling, equating again, so far as possible, supply with demand, to maintain the exchange ratio. This has been described as "ironing out" fluctuations in the exchanges.

The second principle to be remembered is that from the point of view of the safety of the funds entrusted to the managers of the E. E. A. it is a fundamental obligation on them to exchange sterling, whenever they have to do so in accordance with the first principle, only for foreign currencies which

²⁹ See: Harris, S. E., Exchange Depreciation, chapter XV. League of Nations, International Currency Experience, chapter VI.

Hall, N. F., "The British Exchange Equalization Account", the Economist, Vol. CXVIII; sup 1-8, May 5, 1934.

Pumphrey, L. M., "The Exchange Equalization Account of Great Britain", the American Economic Review, Vol. XXXII, No. 4, December, 1942.

Whittlesey, C. H., International Monetary Issues, pp. 8-9.

Paish, F. W., "The British Exchange Equalization Fund", Economica, New Series Vol. II, No. 5-8.

can be exchanged for gold on demand. This is important for the primary reason just mentioned and because of subsequent changes in the characteristics of the E. E. A. into which we shall enquire later. Other countries followed Britain in suspending gold payments and operated a managed currency standard or what is more commonly known as a paper standard. The currencies of such countries were outside the sphere of operations of the E. E. A. because those currencies, if acquired, could not be automatically converted to gold. Britain can have no control whatever over the value of paper standard currencies, but as regards gold this country can ultimately fix a ratio of sterling to gold which it considers desirable.

There is a further reason why sterling should be exchanged only for gold. Foreign capital which sought refuge here will one day return to the country of origin, in which case the E. E. A. will be in a position to supply whichever currency is wanted if it has gold in its keeping. Gold gives safety as well as the maximum of utility from the point of view of the E. E. A.

The third principle is no less important. The acquisition of abnormal quantities of sterling by foreigners and the gold ultimately received in exchange for that sterling would normally expand the credit structure of this country; conversely, gold given in exchange for foreign-owned funds on repatriation would normally lead to a contraction of credit. But having vivid memories of the dire consequences which followed the sudden withdrawal of foreign capital from this country in 1931, the authorities have invented a means of neutralizing such movements of capital. This principle, then, can be described as one of offsetting; offsetting an influx or efflux of foreign capital or insulating the domestic structure from irrelevant external influences.³⁰

The third principle, the practice of offsetting operations, can be further illustrated as follows: when commercial banks increase their deposits as a result of the increase in foreign money,

³⁰ Waight, L., The History and Mechanism of the Exchange Equalization Account, pp. 12-14.

the Exchange Equalization Account only sells Treasury bills to 90 per cent of the amount of the deposit to the commercial banks and discount market. The remaining 10 per cent of the increase of the deposit would be sold to the Bank of England in gold or Treasury Bills. By doing so the 10 per cent cash ratio would be maintained.

For those pound sterling bank notes which are secured and hoarded by foreign holders the Exchange Equalization Account resells an equivalent amount of gold to the Bank of England. This action by the Exchange Equalization Account will increase the gold reserve of the Issue Department of the Bank of England in accordance with the increase in the note circulation.

The establishment of the Exchange Equalization Account and its operations had contributed to the improvement of confidence in the pound sterling and the competitive position of British goods in the international markets. But those countries which remained on the gold standard found their situation going from bad to worse. Prices of their commodities were high priced in the world market. Exports declined while imports were increasing as a result of cheaper foreign commodities. Therefore, the governments of those gold standard countries had to adopt protective measures, such as raising tariffs, imposing quotas and exchange restrictions. As a consequence, deflation was prevalent in the gold standard countries. In addition, there was distrust of the gold currencies and the flight from the gold currencies to the pound sterling was accentuated.³¹

³¹ See Einzig, P., World Finance 1914-1935, chapter XXX.

The flight from the dollar to London was especially serious because of the internal banking crisis in the United States. Facing the wholesale repatriation of British capital from abroad and flight to the pound, the British authorities decided in early 1933 to change their policy of accumulating foreign currencies and converting them into gold in order to avoid the risk of further depreciation.

Before the British decision to convert all foreign currencies acquired into gold, the British authorities were in a position to relieve the gold currencies which were in difficulty. When Great Britain decided to change her policy, her support to currencies which were under pressure ceased. As a result, the flow of gold to London from gold currency countries, especially from the United States, increased greatly.

Through 1932 and toward the beginning of 1933, there was no recovery from the great depression in sight in the United States. The banking crisis and outflow of gold persisted and were increasing. There was also increasing suspicion regarding the stability of the dollar. Therefore, foreigners converted their dollar holdings into gold and in most cases foreigners repatriated their holdings in the form of gold shipments.

In order to facilitate foreign trade, suspension of the gold standard was deemed necessary by American authorities. Consequently, an embargo was placed on gold exports when President Roosevelt assumed his office, and the gold standard was suspended on March 3, 1933. The old dollar parity was abandoned in the following months

and the dollar was allowed to depreciate.³²

The depreciation of the dollar strengthened the competitive position of the United States in international markets. But those countries which remained on the gold basis were subject to pressure because they had to compete not only with "sterling bloc" countries, but with the United States even though the effects of depreciation had been offset to some extent by the rise in commodity prices.

It has been stated that "the suspension of the gold standard in the United States provided the turning-point in the world crisis."³³ Commodity prices showed a rising trend. During the same period no attempts were made on the part of the United States Government to stabilize exchange rates at a certain level; in other words, the foreign exchanges were allowed to depreciate to whatever extent it might occur.

In January, 1934, the time seemed right for the stabilization of the dollar in terms of gold. In his message to congress, President Roosevelt proposed enactment of the Gold Reserve Act, in which a proposal for the establishment of the Exchange Stabilization Fund was contained:

With the establishment of this permanent policy, placing all monetary gold in the ownership of the Government as a bullion base for its currency, the time has come for a more certain determination of the gold value of the American dollar. Because of world uncertainties, I do not believe it desirable in the public interest that an exact value

³² See Federal Reserve Bulletin, Vol. 19, No. 3, March, 1933, pp. 113-133; also Vol. 19, No. 4, April, 1933, pp. 209-218.

³³ Einzig, P., World Finance 1914-1935, page 152.

be now fixed...Careful study leads me to believe that any revaluation at more than 60 per cent of the present statutory value would not be in the public interest. I, therefore, recommend to the Congress that it fix the upper limit of permissible revaluation at 60 per cent.

That we may be further prepared to bring some greater degree of stability to foreign exchange rates in the interests of our people, there should be added to the present power of the Secretary of the Treasury to buy and sell gold at home and abroad, express power to deal in foreign exchange as such. As a part of this power, I suggest that, out of the profits of any devaluation, there should be set a fund of \$2,000,000,000 for such purchases and sales of gold, foreign exchange, and Government securities as the regulation of the currency, the maintenance of the credit of the Government, and the general welfare of the United States may require.³⁴

Thus the price of gold was fixed at 35 dollars per fine ounce³⁵ when the Gold Reserve Act was passed by Congress and approved by President Roosevelt. The new gold price was equal to 59.06 per cent depreciation from its old parity. The United States Exchange Stabilization Fund was established to smooth out unwanted fluctuations in foreign exchange.

Following the establishment of the British Exchange Equalization Account in 1932, the Exchange Stabilization Fund of the United States was set up in January 31, 1934 by the Gold Reserve Act. The resources of the American Fund were derived by increasing the price of gold from 20.67 dollars to 35 dollars per fine ounce. In addition to the original sources of 175 million pounds, the British

³⁴ Federal Reserve Bulletin, Vol. 20, No. 2, February, 1934, page 62.

³⁵ It is of interest to note that today (1956) gold is still priced at \$35 per fine ounce.

Account was further given 200 million pounds in May, 1933 and another 200 million pounds was added to it in July, 1937.³⁶

Although there had been government interventions to eliminate or minimize seasonal fluctuations of foreign exchanges before and after World War I, their objects, operations and organizations were different from that of the Exchange Equalization Funds in the 1930's. "The distinctive characteristics of the Exchange Stabilization funds that have been set up since 1931, however, have been their separate organization, their large resources, and the continuous, active, and secret manner with which the more important ones operate."³⁷

³⁶ See the Economist, Vol. CXVIII; 22-23, July 3, 1937.

³⁷ Gantenbein, J. W., Financial Questions in United States Foreign Policy, page 28. The reason for incorporating the stabilization fund into a separate organization is said to be the greater secrecy permitted in its operations.

CHAPTER IV

OPERATIONS OF THE EXCHANGE EQUALIZATION FUNDS

In the period succeeding the suspension of the gold standard in September, 1931, Great Britain attempted to maintain the pound sterling exchange rate at a level below par; but the repatriation of British capital from abroad and the return flight of foreign short-term capital, which had been withdrawn during the summer of 1931, made it difficult to keep the exchange rate at this low level.¹ Therefore, something had to be done in order to keep the pound sterling from appreciating, in order to strengthen its competitive position in world export trade and to restrict imports. With the passage of the Finance Act of 1932 by Parliament, the British Government, as previously stated, established the Exchange Equalization Account on July 1, 1932, which was to play this role in the foreign exchange market.²

The Exchange Equalization Account gave some of its Treasury bills to the Bank of England in exchange for the foreign exchange the Account had taken over from the Bank.³ The Account had to sell some of its holdings of Treasury bills in order to acquire the amount of sterling required to purchase the foreign money which had flowed into London. As floating funds were transferred to London, the Account was able to obtain more gold by converting the

¹ Harris, S. E., Exchange Depreciation, page 401.

² See the Economist, Vol. CXVI; sup 6-8, May 13, 1933.

³ Ibid.

foreign exchange held into gold either in the United States, France or other gold standard countries. Thus, the Account was provided with Treasury bills, the pound sterling, gold and foreign exchange as assets. Consequently, the Account was able to operate in the foreign exchange market and buy or sell foreign exchange at will as conditions required.

When the Exchange Equalization Account purchased or sold sterling, its operations affected the money market.⁴ Because of its purchases and sales of gold and government securities, the operations of the Account also influenced the gold market and the stock exchange. Therefore, the operations of the Account not only affected the foreign exchange market, but also affected the money market, gold market and the stock exchange.⁵

During its life, the British Exchange Equalization Account passed through four different periods.⁶ The first period began with its establishment on July 1, 1932, and ended with the suspension of the gold standard by the United States in March, 1933. During this period, many countries of the world, such as the United States, France, Holland, Belgium and Switzerland remained on the gold standard and formed a powerful group in competition

⁴ The London money market presents the aggregate of facilities through which short term funds are loaned and borrowed and through which a large part of the financial transactions of the country and of the world are cleared.

⁵ See Pumphrey, L. M., "The Exchange Equalization Account of Great Britain", the American Economic Review, Vol. XXXII; No. 4, December, 1942, page 804.

⁶ Ibid., pp. 808-812.

with the "sterling bloc." The "sterling bloc" derived its name from the fact that some countries followed Great Britain in suspending the gold standard and linked their currency with the pound sterling.⁷

The second period covered the months from the suspension of the gold standard by the United States in March, 1933, until September, 1936, when France left the gold standard. The suspension of the gold standard by France and other countries resulted in the breakdown of the "gold bloc". Consequently, the paper standard was adopted throughout the world.

The third period started from the time when France discontinued the fixed relationship between the value of gold and that of the franc and the conclusion of the Tripartite Agreement⁸ in September, 1936, until May, 1938, when the French Government announced its determination to check the franc from depreciating. One of the consequences of the abandonment of the gold standard by the countries of the world was the devaluation of currencies. The conclusion of the Tripartite Agreement was to provide cooperation on the matter of foreign exchange among nations⁹ and it was considered, at least partly, as a method of eliminating the international race

⁷ See League of Nations, International Currency Experience, pp. 50-54; also Whittlesey, C. H., International Monetary Issues, page 177.

⁸ On September 25, 1936 the United States, Great Britain and France announced that "the three countries had agreed to cooperate in the management of their currencies with a view to maintaining 'the greatest possible equilibrium'," Gantenbein, J. W., Financial Questions in United States Foreign Policy, page 36.

⁹ The United States, Great Britain, France, Belgium, the Netherlands and Switzerland.

in the exchange depreciation. But it was realized not long later that the Tripartite Agreement did not bring about an orderly situation. The exchange depreciation continued through the following years.¹⁰ We may comment here on the disruption to confidence, so necessary to international commerce, of this period of competitive exchange depreciation.

The fourth period began with the declaration of the French Government in May, 1938, that the franc would not be permitted to fall below the ratio of 179 francs to the pound. After the announcement, the depreciation of the franc was checked and French capital started its return flight from London to Paris.

Each period was very important, from the point of view of the British Exchange Equalization Account, because the beginning of every period created a new situation for the Account to face. For example, at the period immediately following the establishment of the Exchange Equalization Account of Great Britain, there was a large flight of American capital to London due to lack of confidence in the American dollar. Facing this situation the Account had to adopt offsetting measures to counteract the effect of increasing demand from the dollar for the pound sterling in order to keep sterling from appreciating.¹¹ When the United States went off the gold standard and the dollar became a "paper currency", the Account could

¹⁰ The sterling-franc exchange rates fell from 77 francs to the pound in September, 1936 to 179 francs to the pound in May, 1938.

¹¹ Compare Einzig, P., World Finance 1914-1935, pp. 239-244.

not continue to convert the dollar into gold in the United States. But this function of the Account could be continued in those countries which were still on the gold standard.

In 1936 when the "gold bloc" countries successively went off the gold standard, the "gold bloc" disintegrated. The currencies of leading countries in the world were no longer convertible into gold. Therefore, the Exchange Equalization Account was able to buy only limited amounts of gold in its attempts to control the value of the pound sterling in terms of gold. When the French franc started to depreciate, French capital flowed to London in great quantity.¹² The Account acted as the temporary residence for French money until the confidence in the franc was sufficiently recovered and the money began its return trip in May, 1938.¹³

First Period (1932-1933)

As mentioned before, the suspension of the gold standard by Great Britain had contributed to the return of confidence in the pound sterling in the latter months of 1931, although a chaotic currency situation occurred immediately following the suspension. When Great Britain left the gold standard many countries followed suit. These countries included most of the British Dominions and some of the Scandinavian countries. With the abandonment of the

¹² See the Economist, Vol. CXXVIII; 3-4, July 3, 1937, and also page 22.

League of Nations, International Currency Experience, pp. 78-79 and 114.

¹³ See Waight, L., The History and Mechanism of the Exchange Equalization Account, page 11.

gold standard those currencies became pegged to the pound sterling even though the pound sterling was a freely fluctuating currency at that time. Sweden was forced to go off the gold standard a few days after the suspension by Great Britain because of sudden withdrawals of foreign funds and flight of Swedish capital to London.¹⁴ People moved their money from Sweden for they realized that the depreciation of the pound sterling would work hardship on Swedish exports. The Swedish export business was largely dependent upon the British market at that time.¹⁵ Twenty-four countries suspended their gold standard between September, 1931 and April, 1932. The gold standard was inoperative in another seventeen countries although it was legally in force. Yet the gold standard was still in operation in thirty-one countries during the same period.¹⁶

During 1932 and the early months of 1933, the outflow of gold from the United States continued. In addition, the weakness in the internal banking situation aggravated the doubt regarding the stability of the dollar. This doubt resulted in hoarding of gold on a large scale by domestic holders of the dollar in the United States. On the other hand, foreign holders of the dollar not only converted their dollar holdings into gold but withdrew them in the

¹⁴ League of Nations, International Currency Experience, page 123.

¹⁵ Ibid.

¹⁶ Ashworth, W. A., A Short History of the International Economy, 1850-1950, page 209.

form of gold shipment from the United States.¹⁷

The Exchange Equalization Account of Great Britain was established at the time of the great crisis in the United States; it had to take the American dollar into its control in relation to the pound sterling. From its establishment until the suspension of the gold standard by the United States, the main operations of the Account were concerned with the dollar.

The operation of the Exchange Equalization Account in relation to the movements of capital and the effect of such movements can be illustrated as follows:¹⁸

The Exchange Equalization Account was given Treasury bills equivalent to 150 million pounds at the time of its establishment. The account of the Exchange Equalization Account would show:

The Exchange Equalization Account (19)
(In million pounds)

Capital	150	Treasury bills	150
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The Exchange Equalization Account was to sell Treasury bills in order to obtain sterling when there was an inflow of foreign funds. Assuming 100 million pounds of foreign money had flowed to London and the Exchange Equalization Account converted half of it

¹⁷ Einzig, P., World Finance 1914-1935, page 247. Also see Comstock, A., "The British Exchange Equalization Account", the American Economic Review, Vol. XXIII, No. 4, December, 1933, pp. 613-618.

¹⁸ For this illustration compare Harris, S. E., Exchange Depreciation, pp. 408-409. Since the operations of the Account are secret, this illustration is based on assumption.

(19) See Harris, S. E., Exchange Depreciation, page 408.

into gold, then the account would be:

The Exchange Equalization Account (20)
(In million pounds)

Capital	150	Treasury bills	50
		Foreign exchange	50
		Gold	50
	<u>150</u>		<u>150</u>

If the Exchange Equalization Account sold gold or other assets to the Bank of England for deposit, it was an increase in the public deposit. Assuming the sale to the Bank was equal to 50 million pounds of Treasury bills and 50 million pounds of gold, then the account of the Exchange Equalization Account would be changed as follows:

The Exchange Equalization Account (21)
(In Million pounds)

Capital	150	Foreign exchange	50
		Public deposit	100
	<u>150</u>		<u>150</u>

Since the Bank of England could buy gold only at a legal price of 77s. 9d., losses would be incurred if the Exchange Equalization Account purchased gold at a price higher than the legal price.²² If the legal price was only equal to 80 per cent of market price, the Account could obtain only 40 million pounds for the gold for which it had paid 50 million pounds. The loss incurred by the Account would be 10 million pounds. Therefore, the Account of the Exchange

(20) See Harris, S. E., Exchange Depreciation, pp. 408-409.

(21) Ibid.

²² See the Economist, Vol. CXVIII; sup 2, May 5, 1934.

Equalization Account would be;

The Exchange Equalization Account (23)
(In million pounds)

Capital	150	Foreign exchange	50
Loss	<u>10</u>	Public deposit	<u>90</u>
	140		140

One of the functions of the Exchange Equalization Account was to control the amount of sterling in the exchange market in relation to the demand. For example, the supply of the pound sterling would be increased in accordance with the increased demand for the pound sterling. Foreigners might also purchase the Treasury bills sold by the Account.

On the other hand, if there was a flight from the pound sterling, the Exchange Equalization Account might sell foreign currency or currencies or gold in order to absorb the pound sterling which the holders would like to convert into foreign money. This is to say that the Account bought sterling assets and sold non-sterling assets when there were those who wanted to purchase foreign money.²⁴

It has been mentioned that the confidence in the pound sterling was weak in the summer of 1931 and there was a wholesale flight from the pound. As a result, there was a heavy outflow of gold from London. The gold movement of Great Britain in 1931 and the succeeding years can be seen in the following table:

(23) See Harris, S. E., Exchange Depreciation, page 409.

²⁴ The Economist, Vol. CXVI; sup 7, May 13, 1933.

Gold movement of Great Britain
(In thousands of dollars)
Export (-)

	1931	1932	1933	1934	1935	1936	1937	1938
Jan.	-43,470	-7,320	-43,260	62,146	-4,279	41,974	-25,523	27,245
Feb.	2,443	-6,182	18,400	184,820	-36,566	38,649	122,296	51,387
Mar.	6,452	-2,691	77,198	91,471	66,557	47,666	78,484	79,037
Apr.	24,084	26,148	64,767	35,003	36,529	77,137	12,036	53,186
May	19,122	16,973	97,386	37,986	146,289	74,590	-48,319	97,478
Jun.	54,300	35,019	77,671	53,056	118,067	69,447	22,957	89,580
Jul.	-130,808	22,675	89,056	30,991	16,289	195,066	127,953	24,119
Aug.	-24,150	1,296	25,628	26,005	39,016	281,401	122,643	-73,132
Sep.	-9,251	5,204	48,260	23,488	-36,086	151,814	-29,775	-261,143
Oct.	13,040	5,814	63,918	49,999	-36,158	7,615	-6,438	-210,171
Nov.	-44,977	13,857	79,138	49,585	18,286	83,168	22,054	-96,508
Dec.	-15,602	-29,582	79,426	27,215	40,811	100,505	20,976	-66,726

Sources: Federal Reserve Bulletin-Vol. 17, No. 7, Jul 1931, p. 401.
 (25) Vol. 18, No. 7, Jul 1932, p. 441.
 Vol. 19, No. 7, Jul 1933, p. 438.
 Vol. 20, No. 7, Jul 1934, p. 474.
 Vol. 21, No. 7, Jul 1935, p. 461.
 Vol. 22, No. 7, Jul 1936, p. 601.
 Vol. 23, No. 7, Jul 1937, p. 688.
 Vol. 24, No. 7, Jul 1938, p. 623.
 Vol. 25, No. 4, Apr 1939, p. 338.

As shown in the above table, during the months of July and August, 1931, the outflow of gold from Great Britain was equal to 130.8 million dollars and 24.2 million dollars respectively and the figure for the month of September was 9.3 million dollars. In October of that year, gold movement reversed and there was a net import of 15.7 million dollars²⁵ of gold into Great Britain. But the outflow of gold that began in November continued until the month of March in the following year, although the value of the outward movements of gold

²⁵ Note: Some of the figures provided in the Federal Reserve Bulletin are preliminary estimates. For example, the figure of 15.7 million dollars is a corrected figure obtained from the December, 1932 issue of the Federal Reserve Bulletin.

gradually declined. In November, 1931, there was a net export of nearly 45.0 million dollars of gold; in March, 1932, it amounted to only 2.7 million dollars. In April, 1932, the movement was reversed and the net import of gold was equal to 26.1 million dollars. This inflow continued until November, 1932.

During the period 1931-1933, the exchange ratio between the dollar and the pound sterling declined greatly. The fall of exchange rate can be seen in the following table.

The Sterling-Dollar Exchange Rate
(Monthly averages of daily quotations)

	1931	1932	1933	1934	1935	1936	1937	1938
Jan		3.43	3.36	5.05	4.89	4.96	4.91	5.00
Feb		3.46	3.42	5.03	4.87	5.00	4.89	5.02
Mar		3.64	3.43	5.09	4.78	4.97	4.89	4.98
Apr		3.75	3.58	5.15	4.84	4.94	4.92	4.98
May		3.68	3.93	5.11	4.89	4.97	4.94	4.98
Jun		3.65	4.14	5.05	4.93	5.02	4.94	4.96
Jul		3.55	4.65	5.04	4.96	5.02	4.97	4.93
Aug	4.86	3.48	4.50	5.07	4.97	5.03	4.98	4.88
Sep	4.53	3.47	4.66	4.99	4.93	5.04	4.95	4.80
Oct	3.89	3.40	4.67	4.94	4.91	4.90	4.96	4.77
Nov	3.72	3.28	5.15	4.99	4.92	4.89	5.00	4.71
Dec	3.37	3.28	5.12	4.95	4.93	4.91	5.00	4.67

Sources: Federal Reserve Bulletin-Vol. 18, No. 7, Jul 1932, p. 449.
 Vol. 19, No. 7, Jul 1933, p. 446.
 Vol. 20, No. 7, Jul 1934, p. 482.
 Vol. 21, No. 7, Jul 1935, p. 469.
 Vol. 22, No. 7, Jul 1936, p. 609.
 Vol. 23, No. 7, Jul 1937, p. 696.
 Vol. 24, No. 7, Jul 1938, p. 631.
 Vol. 25, No. 4, Apr 1939, p. 344.

It was mentioned in Chapter III that the sterling-dollar exchange ratio had fallen from 4.86 dollars to the pound on September 21, to 3.94 dollars to the pound on October 1, 1931. The ratio fell to 3.72 to 1 in November and 3.37 to 1 in December, 1931. The

sterling-dollar ratio was 3.43 to 1 and 3.46 to 1 in January and February, respectively in 1932. In March and April, the sterling exchange rate showed a rising trend. In other words, the heavy inflow of foreign funds and repatriation of British capital caused the pound sterling to appreciate.²⁶ But through the rest of 1932, the sterling exchange ratio declined from 3.65 to 1 in June to 3.28 to 1 in November and December. This downward trend of the sterling exchange ratio might be said to have conformed with one of the objects of the Exchange Equalization Account to maintain the external value of the pound sterling at a low level.

Toward the end of 1932, Great Britain faced the problem of war loan payments to the United States,²⁷ and it was the anticipation by the market that the British Government would purchase the dollars to make the payment which caused the pound sterling to depreciate sharply in November and December, 1932. At the time of depreciation, the Exchange Equalization Account had made efforts to support the pound sterling, but because of inadequate holdings of foreign exchange and gold the Account failed in its attempt. It was also claimed that the Account stepped aside from the exchange market during this period.²⁸ Consequently, the exchange rate reached a low point of 3.28 dollars to the pound. But when it became known that

²⁶ See the Economist, Vol. CXVIII; sup 2-3, May 5, 1934.

²⁷ Comstock, A., "the British Exchange Equalization Account", the American Economic Review, Vol. XXIII, No. 4, December, 1933, page 611.

²⁸ Ibid.

payment would be made in the form of a gold shipment,"²⁹ confidence in the pound sterling was restored gradually. For this payment there was a net export of 29.6 million dollars in gold in December, 1932, and 43.3 million dollars in gold in January, 1933. However, the return of confidence in the pound sterling also contributed to the recovery of sterling.

In the early months of 1933, the internal banking crisis in the United States accentuated the flight from the dollar to the pound sterling. In addition, the deficit budgets of the French Government after 1930 resulted in a distrust of the franc. Thus, there was also an increasing amount of the French franc flowing to the pound sterling.³⁰ Facing this situation, the Exchange Equalization Account had to take actions to stop unwanted appreciation of the pound sterling. As the purchases of gold and foreign exchange were increased, the resources of the Account were used up quickly. Consequently another 200 million pounds was added to the sterling assets of the Account in May, 1933.³¹

The gold movements of the United States were closely related to the position of the dollar, the franc and the pound. In the month of October, 1931, the gold movement of the United States was reversed and a net export of 337.7 million dollars of gold from the

²⁹ Einzig, P., World Finance 1914-1935, page 242.

³⁰ See the Economist, Vol. CXVIII, 70-71, January 13, 1934; also Vol. CXVI, 10, May 13, 1933.

³¹ Paish, F. W., "The British Exchange Equalization Fund," Economica, New Series, Vol. II, No. 5-8, page 66.

United States was reported. This reversal was due to the chaotic currency situation in the United States.³² Of this amount of export, part of it was shipped to Great Britain but most of it was absorbed by France. France's import of gold from the United States in the month of October, 1931 was 324.5 million dollars.

The outflow of gold from the United States persisted during the first half of 1932, and reached its peak in May and June that year; 195.5 million dollars and 206.0 million dollars were exported in the respective months.³³ In the latter part of 1932, there was a sign of slight recovery from the great depression in the United States.³⁴ Commodity prices showed a tendency to rise, the movements of gold reversed and there was flow of gold to the United States. The gold movements to the United States were 100.8 million dollars in January, 1933.³⁵

During this period of uncertainty in the United States and Great Britain, the situation in France was comparatively stable. During the years 1931 and 1932, there was a consistent inflow movement of gold to France. The annual report of the Bank of France for the year 1932,³⁶ declared that there was an increase of gold reserve

³² Federal Reserve Bulletin, Vol. 18, No. 7, July, 1932, page 440.

³³ Federal Reserve Bulletin, Vol. 18, No. 10, October, 1932, page 648.

³⁴ See Einzig, P., World Finance, 1914-1935, page 252.

³⁵ Federal Reserve Bulletin, Vol. 19, No. 7, July, 1933, page 437.

³⁶ Federal Reserve Bulletin, Vol. 19, No. 3, March, 1933, page 149.

in the Bank. The relatively stable condition in France was interrupted when the consistently unbalanced budget of the French Government following 1930 raised doubt regarding the franc and resulted in a flight from the franc. There was a net export of gold from France in January and February, 1933.

Second Period (1933-1936)

From the beginning of 1933, the pound sterling showed a tendency toward appreciation. The exchange ratio between the dollar and sterling rose to 3.36 dollars to the pound in January, 1933, and 3.43 dollars to the pound in March. As the dollar depreciated, there was a sharp appreciation of the pound sterling. The exchange rate reached 4.13 dollars to the pound in June and 5.14 dollars to the pound in November, 1933.³⁷

It was believed at the time of the suspension of the gold standard by the United States that the depreciation of the dollar would result in a competitive currency depreciation. But this belief did not materialize because nothing had been done by the British authorities to prevent the pound sterling from appreciating.³⁸

As the United States went off the gold standard, the holders of the dollar were no longer permitted to convert it into gold. Therefore, the Exchange Equalization Account could not go on buying an unlimited amount of "paper dollars" because serious risks would be

³⁷ Federal Reserve Bulletin, Vol. 20, No. 7, July, 1934, page 482.

³⁸ See Einzig, P., World Finance 1914-1935, page 255.

involved.³⁹ But many countries of the world still maintained the gold standard at that time; the Account was able to shift its operations from the dollar to other gold currencies. Owing to its leading position in the "gold bloc" countries after the abandonment of the gold standard by the United States, the franc became the main object⁴⁰ of the operations of the British Exchange Equalization Account.

One of the important effects of the depreciation of a currency is said to be its contribution to the improvement of the foreign trade position of a country. In 1931, the balance of trade of Great Britain was very unfavorable. It was reported that the excess of imports over exports was 408 million pounds in the year 1931. After Great Britain left the gold standard in the fall of 1931, the pound sterling depreciated, and the balance of trade improved to a large extent. The excess of imports over exports declined to 287 million pounds in 1932 and 263 million pounds in 1933. The value of excess imports for 1934 and 1935 was 294 and 261 million pounds respectively.⁴¹

In the year 1931, there was the net outflow of gold of 143.7 million dollars from Great Britain. From April, 1932 onward, the trend of gold movement reversed and there was net import for the year

³⁹ According to one of the principles of the operations of the Exchange Equalization Account it only purchased currencies which could be converted into gold on demand in order to avoid loss by foreign exchange transactions.

⁴⁰ After the United States suspended the gold standard in 1933, the French franc became the most important currency in the "gold bloc" and the situation of the franc began to deteriorate at that time.

⁴¹ See Harris, S. E., Exchange Depreciation, page 469.

of 84.6 million dollars of gold to Great Britain. The surplus of gold imports was 677.4 million dollars for 1933, 716.3 million dollars for 1934 and 369.7 million dollars for 1935.⁴²

As stated before, after the suspension of the gold standard by the United States, the Exchange Equalization Account directed its operations toward gold currencies, such as the French franc and the Swiss franc. In January 31, 1934, the United States again re-linked the dollar to gold by the Gold Reserve Act, in which the value of the dollar was depreciated by 59.06 per cent of its old content.⁴³ The Gold Reserve Act did not restore the dollar to a fully operative gold standard; holders of the dollar were not permitted to convert it into gold. Consequently, the Exchange Equalization Account was still unable to operate against the dollar. The operations of the Account continued toward the currencies of the "gold bloc".

From the time the United States suspended the gold standard until the breakdown of the "gold bloc", capital movements and foreign exchange were comparatively stable both in the United States and Great Britain. But the situation in France had changed;⁴⁴ there were outflows of capital from France from time to time, accompanied by a net export of gold. The gold reserves and foreign exchange of

⁴² Federal Reserve Bulletin, Vol. 19, No. 7, July, 1933, page 438.
⁴³ Federal Reserve Bulletin, Vol. 22, No. 7, July, 1936, page 601.

⁴³ Federal Reserve Bulletin, Vol. 20, No. 2, February, 1934.

⁴⁴ Compare the Economist, Vol. CXX, sup 8-9, February 16, 1935.

the Bank of France declined as time elapsed. In 1932, there was a net import of 828 million dollars into France, and in 1933, 243.9 million dollars worth of gold.⁴⁵ But from 1934 onward there were net exports of gold from France. The efflux of gold was 408 million dollars in 1934 and 818 million dollars in 1935.⁴⁶

During the years preceding the suspension of the gold standard by Great Britain, the French franc was under-valued in terms of other currencies. Consequently France was able to enjoy an advantageous position in international trade. During these years of prosperity France accumulated large quantities of gold and foreign exchange.⁴⁷ But the depreciation of the pound sterling and the dollar resulted in the appreciation of the franc and other gold currencies. Therefore, while the United States and the countries of the "sterling bloc" were recovering from depression, the depression in France and other "gold bloc" countries was deepening. But the strength that France had gained during the prosperous years enabled it to resist the crisis long before it had to abandon the gold standard.⁴⁸

The depression in France was aggravated by its unfavorable international trade position. The resisting capacity of the French franc declined as time went by.⁴⁹ As a result, there was a whole-

⁴⁵ See Federal Reserve Bulletin, Vol. 20, No. 7, July, 1934, page 474.

⁴⁶ See Federal Reserve Bulletin, Vol. 22, No. 7, July, 1936, page 601.

⁴⁷ See Einzig, P., World Finance 1914-1935, page 262.

⁴⁸ Ibid., pp. 262-266.

⁴⁹ Compare the Economist, Vol. CXX; 1117-1118, May 18, 1935.

sale flight from Paris and the Bank of France lost its gold reserves heavily. During the period from August 7 to September 25, 1936, the loss of gold by the Bank of France amounted to 320.0 million dollars. The aggregate loss for the period from March, 1935 to September 25, 1936, was 2,100.0 million dollars.⁵⁰

The heavy flow of gold from France to Great Britain during this period can be seen in the following figure: the gold import of Great Britain from France in the month of July, 1936 was 142.5 million dollars, 240.9 million dollars in August and 108.7 million dollars in September.⁵¹ In facing this flight of French money and other gold currencies to London, the Exchange Equalization Account sold to the Bank of England large quantities of gold in order to obtain the pound sterling required to counteract the contraction of credit which might be caused by the inflow of foreign capital.

During the period of flight from the franc, there was a sharp increase in note circulation of Great Britain and much of the increase in British notes was hoarded by French people.⁵² Those notes which were hoarded could no longer perform the function as medium of exchange; the effect was deflationary.

Third period (1936-1938)

As the gold reserves of the Bank of France came to the margin

⁵⁰ Federal Reserve Bulletin, Vol. 22, No. 10, October, 1936, page 760.

⁵¹ Federal Reserve Bulletin, Vol. 23, No. 7, July, 1937, page 688.

⁵² See Waight, L., The History and Mechanism of the Exchange Equalization Account, chapter 7.

of exhaustion, the French Government had to suspend the gold standard in September 26, 1936,⁵³ five years after the depreciation of the pound.

The breakdown of the currencies of the "gold bloc" countries had seriously threatened the ability of the Exchange Equalization Account to control sterling exchange rates because the principal currencies of the world were no longer convertible into gold. The control of the value of the pound sterling in terms of gold by the Exchange Equalization Account was limited to its open market operations: the Account bought and sold gold in the market at a price which was decided by the Account. But this operation of the Account produced little effect because the amount of gold coming into the gold market was small.

In September, 1936, at the same time the "gold bloc" countries suspended their gold standard, an arrangement known as the Tripartite Agreement was concluded among the United States, Great Britain and France in order to have coordinated action in the international financial affairs. Belgium, Holland and Switzerland adhered to this agreement shortly after.⁵⁴ The countries agreed to avoid competitive exchange depreciation, to eliminate excessive exchange fluctuation and to maintain foreign exchange at the existing rate.⁵⁵

⁵³ See the Economist, Vol. CXXIX; 24, October 2, 1937, also Federal Reserve Bulletin, Vol. 22, No. 10, October, 1936.

⁵⁴ Federal Reserve Bulletin, Vol. 22, No. 11, November, 1936.

⁵⁵ Gantenbein, J. W., Financial Questions in United States Foreign Policy, page 37.

After the breakdown of the "gold bloc", every country established an exchange equalization fund of its own. On October 13, 1936, a further announcement was made regarding cooperative arrangement on a twenty-four hour basis among the exchange equalization funds. By this arrangement, the exchange equalization fund of every country would sell gold to the exchange equalization fund of every other country, and to give twenty-four hour notice before changing the price of gold.⁵⁶ In other words, an equalization fund of these six cooperating countries could hold any other's currency for twenty-four hours without risk of exchange loss. The exchange equalization fund of every country notified other funds daily of the price of gold that it had decided to sell and buy.

This device for cooperation among the exchange equalization funds of six leading nations restored their ability to operate in more than one currency. To the Exchange Equalization Account of Great Britain, it was a restoration of its operations as it was in the period immediately following its establishment, although the mutual support was provided only on a twenty-four hour basis.

The depreciation of the "gold bloc" currencies and the conclusion of the Tripartite Agreement for coordinate action on currency by these six leading countries had brought about the hope that the unusual movement of capital among nations could be checked and orderly international financial affairs could be restored. But the hope was brought to an end shortly after the conclusion of this

⁵⁶ League of Nations, International Currency Experience, page 131.

Agreement because of political uncertainty; floating money was again moving from one place to another in seeking security.⁵⁷

Through this period, there was heavy flight of French capital to London. With the exception of small-scale return movements of the French franc in February and October, 1936 and May, 1937, it was almost a one-way movement of the franc to the pound.⁵⁸ This import of French capital required the Exchange Equalization Account to sell sterling and buy the franc in large amounts. The franc thus obtained was converted into gold through the sale of gold by the cooperation of other exchange equalization funds.

In 1937, the sterling resources of the British Exchange Equalization Account were nearly exhausted and it was necessary to increase its capital if the Account was to continue its operations. Consequently, an additional 200 million pounds was added to its resources in July of that year.⁵⁹

Fourth Period (1938-1939)

In May, 1938, however, the situation changed fundamentally when the French Government announced that the exchange rate between the franc and the pound would not be permitted to fall below 179 francs to the pound. The determination of the French Government

⁵⁷ See the Economist, Vol. CXXIX, 644-645, December 25, 1937, also League of Nations, International Currency Experience, pp. 78-79, 114.

⁵⁸ Compare Waight, The History and Mechanism of the Exchange Equalization Account, chapters 4 and 7.

⁵⁹ The Economist, Vol. CXXVIII, 22-23, July, 1937.

to maintain the stability of the franc had immediately increased confidence in the franc.⁶⁰ In fact, since the franc had been sent to London when the pound-franc exchange rate was at a higher-level, a considerable profit would result if the funds were repatriated at the new rate. Therefore, it resulted in a great rush to convert sterling balance into the franc on the part of French nationals who held sterling balances. It was estimated that the amount of capital transferred to France from London was about 80 million pounds in the first four days following the announcement.⁶¹

From the viewpoint of the Exchange Equalization Account, there was a great difference between the situation in the fall of 1936 and that in May, 1938. In the period of flight from the franc to the pound in 1936, before France suspended its gold standard, the value of the franc was based on the gold content of the franc, while in May, 1938, the franc had become a "paper franc" and its value became a matter of decision by French authorities. Therefore, in 1936 the British Exchange Equalization Account could convert its holdings of the French franc into gold at a fixed price in the time of flight to the pound, but the Account was unable to do this in 1938 because of changing rates fixed by French authorities from time to time.

However, by years of experience and strength gained in the past, the Exchange Equalization Account was able to face this situa-

⁶⁰ Compare Paish, F. W., "Twenty Years of the Floating Debt", Economica, New Series, Vol. VI, No. 21-24 (1939), pp. 267-268.

⁶¹ Waight, L., The History and Mechanism of the Exchange Equalization Account, page 66.

tion easily. Its effectiveness has been particularly cited as "An instant conjunction of supply with demand was made with an ease and smoothness deserving of an honorable mention on the scroll of London's financial history."⁶²

In order to offset an inflationary effect which might be caused by the purchases of francs and sales of sterling by French nationals, the Exchange Equalization Account bought from the Bank of England the Treasury bills which were sold to it previously. This operation by the Account restored its original assets.

The Exchange Equalization Account of Great Britain was again confronted with a new problem in late July and August, 1938 when it was realized that the dollar was under-valued and a large volume of sterling was being converted into dollars. The situation was intensified by the possible outbreak of war in Europe and consequently many holders of sterling transferred their balances to the dollar and Swiss franc to seek security.⁶³

While facing highly uncertain world conditions, the Exchange Equalization Account of Great Britain continued its existence and operations for a period of over seven years from its establishment on July 1, 1932, until the war broke out in Europe and the mechanism of the Exchange Equalization Account was replaced with a strict

⁶² Waight, L., The History and Mechanism of the Exchange Equalization Account, page 67.

⁶³ See Pumphrey, L. M., "The Exchange Equalization Account of Great Britain," the American Economic Review, Vol. XXXII, No. 4, December, 1942, page 812, and the Economist, Vol. CXXXVI; 493-494, September, 1939.

exchange control on September 4, 1939.⁶⁴

In the United States the Exchange Stabilization Fund was not needed to support the dollar in terms of other currencies because the dollar was on its way to recovery from the time of its depreciation. Consequently, the operation of the American Fund was mainly one-sided; to support gold currency owing to the export and balance of payment difficulties since the depreciation of the dollar.⁶⁵

The United States Stabilization Fund did not attempt to support the exchange rate of foreign currency at a certain level, but assisted foreign countries in transferring gold to the United States or made the dollar available for foreign countries against foreign earmarked gold.⁶⁶

The Exchange Equalization Funds contributed to a great extent to the reduction of fluctuations of exchange rate and the restoration of smoothness in international transactions during the great uncertainty in the 1930's.⁶⁷

⁶⁴ See the Economist, Vol. CXXXVI; 493-494, September, 1939, and the American Economic Review, Vol. XXXII, No. 4, December, 1942, page 803.

⁶⁵ Enke and Salera, International Economics, pp. 586-588.

⁶⁶ Ibid., page 589.

⁶⁷ See Pumphrey, L. M., "the Exchange Equalization Account of Great Britain," the American Economic Review, Vol. XXXII, No. 4, December, 1942, pp. 803-816, also League of Nations, International Currency Experience, pp. 143-161. As shown in table on page 55 of this thesis the sterling-dollar exchange rates had been relatively stable since July, 1933 onward.

CHAPTER V

CONCLUSION

When a country suspends its gold standard, it can avoid the disadvantages of freely fluctuating exchange by adopting strict measures of exchange control, or by establishing an exchange stabilization fund to deal with the problems arising in the foreign exchange market.¹ By exchange control, the market mechanism would be replaced with artificial measures like exchange restrictions, import quotas and exchange clearing. Under strict exchange control, freedom in the exchange market would be seriously affected or completely destroyed. A country could also choose to manage the external value of its currency by means of an exchange stabilization fund. The fund would participate in the exchange market as a buyer or a seller of foreign exchange to influence the exchange rate and volume of transactions in foreign exchange in order to keep the exchange rate at a desirable level.² Under the operations of the stabilization fund, the mechanism of free market would be maintained. The above statement does not imply that the exchange stabilization fund device would be preferred over exchange control in all countries under all circumstances.

Under the international gold standard mechanism, the value of one currency in relation to another was determined by the gold content of the monetary units concerned. The exact value of one

¹ Enke and Salera, International Economics, pp. 580-581.

² Compare Burns, Neal and Watson, Modern Economics, pp. 688-690.

currency in terms of the other could be derived by calculating the ratio of gold content of different moneys. However, the actual exchange rate fluctuated around the ratio according to the demand and supply position of the currencies concerned. The range of fluctuations was limited by the cost of transporting the gold from the financial center of one country to that of another. The exchange rates would not fall below the low limit or rise above the upper limit because if the exchange rate was too high or too low it would pay to export or import gold. Thus under the international gold standard, the exchange rates were fixed within these narrow limits; exchange rates were stable. The stability of exchange rates was a great advantage from the point of view of exporters, importers and international investors. The risk in international trade was minimized because there would not be any sudden rise or fall of exchange rate. The exporters and importers could calculate properly the cost and profit which would be incurred or could be derived from their trading transactions. The stability of exchange also stimulated capital investments in foreign countries because loss of capital value would not occur under stable exchange.³

The international gold standard was adopted by many countries of the world during the great expansion of the international economy in the nineteenth century. It was the expanding economy and the existence of international equilibrium which made the adoption of the gold standard possible. But the stability of foreign exchange

³ See Condliffe, J. B., The Commerce of Nations, chapter XII, also Halm, G. N., Monetary Theory, chapter 12.

in turn accelerated the expansion of international trade and investment.⁴

During and after World War I exchange control was introduced in most countries of the world to prevent loss of gold or to allocate limited sources of foreign exchange for use for the most desirable purposes or to prevent a country's currency from depreciating. In the 1930's, exchange control was adopted by some totalitarian countries, in particular Germany. Not only was exchange control used as a device to regulate balance of payments and control important commodities, but it was also used as an instrument for the furtherance of economic and political power both at home and abroad.⁵ With exchange control, a government can exercise a great influence over economic activities; the liberty of individuals in foreign exchange transactions is seriously affected or destroyed. As a result, exchange control becomes a great obstacle to international trade and settlement. The experience of the 1920's and the 1930's indicates that they should not be introduced if they can be avoided.⁶

Apart from the drastic measures of exchange control, the control of foreign exchange can be accomplished in a mild form by the use of the exchange stabilization fund device. "An Exchange Stabilization Fund is a collection of assets segregated under central

⁴ Condliffe, J. B., The Commerce of Nations, page 366.

⁵ See Ellis, H. S., Exchange Control in Central Europe, pp. 298-299.

⁶ Compare League of Nations, International Currency Experience, chapter VII.

control for the purpose of intervention in the exchange market to prevent undesirable fluctuations in exchange rates."⁷

The adoption of the exchange stabilization fund device as a means of controlling foreign exchange is to be preferred over the strict method of exchange control when the balance of payments of a country shows a temporary and moderate disequilibrium after a short intermission. In order for the establishment of an exchange stabilization fund to be feasible, a country must be economically and financially important from the world point of view, because floating funds flow into or out of important financial centers promptly when conditions change. In addition, its people should have a tradition of economic freedom.⁸

If a country is in a chronic state of disequilibrium in the balance of payments and there is no prospect of restoring equilibrium, strict exchange control will likely be introduced; for, if the balance of payment difficulty of a country is persistent, it will result in the exhaustion of the country's foreign assets unless drastic measures are taken to prevent it.

Great Britain, the United States, France, Holland, Belgium and Switzerland established their respective exchange stabilization funds to operate in the foreign exchange market during the 1930's; this device was to substitute for the mechanism of the gold standard:

⁷ League of Nations, International Currency Experience, page 143.

⁸ See Enke and Salera, International Economics, page 581.

...the most active Exchange Funds were developed as instruments for administering an international gold settlement system which was the successor in a large part of the world of the international gold standard system. This development in turn was the product of a compromise between the principle of national sovereignty over monetary policy and the principle of adaptation to the requirements of membership in a world monetary system.⁹

The British Exchange Equalization Account was the first of the six exchange stabilization funds to be established during the 1930's after the gold standard was suspended. It was said to be "an experiment and, as in all experiments, there are possibilities of failure as well as possibilities of success therein."¹⁰

From the viewpoint of the stability of sterling in terms of foreign currencies, the British Exchange Equalization Account was successful as "an experiment" in keeping the value of the pound sterling stable in the face of changing value of other currencies. As shown in the table on page 55, the variation in the sterling-dollar exchange was relatively small from the latter part of 1933 through the following years. The annual percentage change of sterling in terms of dollars was 5.7 per cent in both 1934 and 1935. The per cent range of variation in 1936 was 4.1 per cent and 3.2 per cent in 1937.¹¹

The general principles of the British Exchange Equalization

⁹ League of Nations, International Currency Experience, page 143.

¹⁰ Waight, L., The History and Mechanism of the Exchange Equalization Account, page 128.

¹¹ League of Nations, Monetary Review, 1937-1938, page 27.

Account were imitated by the leading countries of the world as a substitute for the gold standard.¹² This creation of the exchange equalization fund produced an intermediary system of international settlement between the gold standard and exchange control. Although the equalization fund device is a mild form of exchange control in one sense, it is suitable for a country which is unable to base its monetary system on the gold standard but is not in need of drastic measures of exchange control. Under its operations, the foreign exchange rate is flexible to a certain extent but undue fluctuations are eliminated. Freedom of transactions in the exchange market is maintained. In other words, the exchange stabilization fund device enables a country to maintain the advantages of the gold standard and avoid the disadvantages of exchange control to a certain extent.¹³

With the termination of World War I, efforts were made by nations to revive the gold standard, largely under the stimulation of the memory of the "good old days."¹⁴ The efforts failed due to the inadequate supply and maldistribution of gold. Notwithstanding this, attention had been directed toward international cooperation to restore multilateral international trade. The Supreme Economic Council held in March, 1920, recommended that the countries "re-

¹² Compare Whittlesey, C. R., International Monetary Issues, pp. 5-13.

¹³ Compare Pumphrey, L. M., "the Exchange Equalization Account of Great Britain," the American Economic Review, Vol. XXXII, No. 4, December, 1942, pp. 813-816.

¹⁴ See Einzig, P., World Finance 1914-1935, pp. 109-111.

establish full and friendly cooperation and arrange for the unrestricted interchange of commodities."¹⁵ In October of that year, the League of Nations sponsored the Brussels Financial Conference and it was further recommended that "each country should aim at the progressive restoration of that freedom of commerce which prevailed before the war, including the withdrawal of artificial restrictions on, and discrimination of price against, external trade."¹⁶

In 1922, efforts were further made to promote international cooperation. The Genoa Conference recommended the gold exchange standard as a substitute for the gold standard to stabilize the value of currencies.¹⁷

Although efforts were made from time to time in the 1920's and the early 1930's, the proposals for international cooperation did not materialize due to economic and political instability that made some kind of exchange control seem necessary. The lack of mutual understanding, consequently the lack of confidence, was also one of the reasons that nations of the world were not ready to accept the proposals.

When the World Economic Conference was held in London in the summer of 1933, a proposal was made "for cooperation between Exchange Funds, or even the creation of a Tripartite Exchange Fund to be operated jointly by the United States, the United Kingdom and

¹⁵ League of Nations, Commercial Policy in the Interwar Period, pp. 17-18.

¹⁶ Ibid., pp. 18-19.

¹⁷ Ibid., pp. 22-24.

France.¹⁸ Nothing resulted from this proposal, although retaliatory measures against the operations of the British Exchange Equalization Account were deemed inevitable; the judgment of the appropriateness of intervention in the exchange market was an independent decision of the British Account.¹⁹

In reacting to the British Exchange Equalization Account, the United States in April, 1934, founded its Exchange Stabilization Fund, said to be essentially "retaliatory" to the depreciation of the pound sterling.²⁰ In addition to smoothing out unwanted fluctuations of exchange rate, the Fund was designed to "defend" the dollar exchange rate from the effect of the change in the value of foreign currencies.²¹

"The area of free exchange rates was much restricted during the years when Exchange Funds were being developed and generalized, and within this shrinking, though large, area Exchange Funds intervened in the free market for reasons as different as domination, retaliation, preservation and adaptation."²²

In the course of its life, the British Exchange Equalization Account faced different situations at different periods. Before

¹⁸ League of Nations, International Currency Experience, page 144.

¹⁹ Compare Enke and Salera, International Economics, pp. 582-584.

²⁰ Ibid., 582-584.

²¹ See League of Nations, International Currency Experience, page 144.

²² League of Nations, International Currency Experience, page 145.

March, 1933, Great Britain could maintain the sterling exchange rate at a depreciated level without fear of retaliation from foreign currencies, and during this period the pound sterling exchange rate was kept undervalued. After the suspension of the gold standard by the United States, the British Account faced a new situation. The deliberate depreciation of the dollar resulted in the appreciation of the pound sterling; the British authorities had to decide whether they should engage in competitive currency depreciation with the United States or leave the pound sterling at an overvalued level. The fact that the dollar-sterling exchange ratio was above the old parity of 4.86 dollars to the pound suggested that the British authorities did not attempt to depreciate the pound sterling in the face of depreciated dollar.²³ In March, 1935 the dollar-sterling exchange rate dropped below the old parity and reached 4.78 dollars to the pound.²⁴ "It was believed in certain financial quarters that this episode was due to the Account's first having deliberately abandoned its supporting operations and then having resumed its support of sterling under pressure from American official quarters."²⁵ If the above statement is correct, then the decision of the Account

²³ See Pumphrey, L. M., "the Exchange Equalization Account of Great Britain," the American Economic Review, Vol. XXXII, No. 4, December, 1942, pp. 807-811.

²⁴ Federal Reserve Bulletin, Vol. 21, No. 7, July, 1935, page 469.

²⁵ Pumphrey, L. M., "The Exchange Equalization Account of Great Britain," the American Economic Review, Vol. XXXII, No. 4, December, 1942, page 810.

was influenced by other than economic considerations.

With the conclusion of the Tripartite Agreement in September, 1936, the Exchange Stabilization Funds entered a new stage of their life. The purpose of the Agreement was to "maintain the exchange stability of their currencies."²⁶ By the arrangement announced in October of that year, cooperation among stabilization funds was for the first time provided on a twenty-four hour basis.²⁷ The idea of the Tripartite Agreement is closely related to that of the International Monetary Fund which was created by the Bretton Woods Conference. "Exchange stability, orderly exchange arrangements and the avoidance of competitive exchange depreciation have a prominent place among the purposes of the Fund (International Monetary Fund) ..."²⁸

In the conclusion of this study, we may quote the following paragraph:

"...As a substitute for the great adjustability of the ideal gold standard so far as the balance of payments is concerned, it is apparent that under paper standards the device of an exchange-equalization fund offers a medium for effecting direct adjustments in the balance of payments. This medium is no less immediately available than the means provided by the gold standard. With intelligent administration, the stabilization fund can, in fact, be even more mobile or adjustable than gold or ordinary credits. An equalization fund consists primarily of short-term credits that can be maneuvered according to the will

²⁶ See Gantenbein, J. W., Financial Questions in United States Foreign Policy, pp. 36-38.

²⁷ Enke and Salera, International Economics, page 590.

²⁸ Hawtrey, R. G., Bretton Woods for Better or Worse, page 39.

of the monetary authorities. It possesses the advantage that it is controlled and therefore is not subject to the influence of panic. It should never assume the perverse or 'maladjustable' character that has at times characterized movements of gold and short-term credit. The possibility had been suggested of a war of the exchange rates developing out of a conflict of the policies of different exchange-equalization funds. It seems very doubtful, on the basis of both theory and experience, that this constitutes a significant probability. It is much more probable that the next stage in the development of international monetary cooperation will consist of close working among the leading exchange equalization funds..."²⁹

²⁹ Whittlesey, C. R., International Monetary Issues, pp. 62-63.

APPENDIX

Table I*

WORLD TRADE IN MANUFACTURED ARTICLES (Annual averages)							
Period	Actual values at the old parity (in \$000,000's)			Total value (\$000,000's) at 1913 prices	Indices (1913=100) of: Value (in gold)	Quan- tum	Price (in gold)
	Imports	Exports	Total				
1876-80	2,480	2,290	4,770	4,877	31.4	32.1	97.8
1881-85	2,810	2,600	5,410	6,065	35.7	40.0	89.2
1886-90	2,900	2,700	5,600	6,846	36.9	45.1	81.8
1891-95	2,890	2,720	5,610	6,960	37.0	45.9	80.6
1896-00	3,370	3,230	6,600	7,285	43.5	48.0	90.6
1901-05	4,160	3,990	8,150	9,588	53.7	63.2	85.0
1906-10	5,620	5,400	11,020	11,824	72.6	77.9	93.2
1911-13	7,250	6,920	14,170	14,504	93.4	95.6	97.7
1913	7,720	7,450	15,170	15,170	100.0	100.0	100.0
1921-25	10,880	10,410	21,290	11,621	140.3	76.6	183.2
1926-29	12,920	12,400	25,320	15,825	166.9	104.3	160.0
1930	11,310	10,770	22,080	15,123	145.6	99.7	146.0
1931-35	5,380	5,130	10,510	11,449	69.3	75.5	91.8
1936-38	5,500	5,290	10,790	13,977	71.1	92.1	77.2

Table II*

WORLD TRADE IN PRIMARY PRODUCTS (Annual averages)							
Period	Actual values at the old parity (in \$000,000's)			Total value (\$000,000's) at 1913 prices	Indices (1913=100) of: Value (in gold)	Quan- tum	Price (in gold)
	Imports	Exports	Total				
1876-80	4,580	3,720	8,300	7,905	32.8	31.2	105
1881-85	4,890	4,160	9,050	9,628	35.7	38.0	94
1886-90	4,990	4,260	9,250	11,280	36.5	44.5	82
1891-95	5,500	4,650	10,150	13,013	40.1	51.4	78
1896-00	6,440	5,460	11,900	15,256	47.0	60.2	78
1901-05	7,780	6,920	14,700	17,927	58.0	70.8	82
1906-10	10,030	8,920	18,950	21,056	74.8	83.1	90
1911-13	12,670	11,400	24,070	24,561	95.0	97.0	98
1913	13,330	12,000	25,330	25,330	100.0	100.0	100
1921-25	16,900	15,250	32,150	21,723	126.9	85.8	148
1926-29	21,310	19,210	40,520	28,535	160.0	112.7	142
1930	17,770	16,230	34,000	30,357	134.2	119.8	112
1931-35	8,910	7,930	16,840	27,161	66.5	107.2	62
1936-38	9,070	8,060	17,130	29,534	67.6	116.6	58

*Source: League of Nations, Industrialization and Foreign Trade, p. 157.

Table III

INDUSTRIAL PRODUCTION
(1929 = 100)

	1932	1937*		1932	1937*
U.S.S.R.	183		France	72	82
Japan	98		Belgium	69	
Norway	93		Italy	67	
Sweden	89	149	Czechoslovakia	64	
Holland	84		Poland	63	
U.K.	84	124	Canada	58	
Roumania	82		Germany	53	117
Hungary	82		U.S.A.	53	103

*Figures in breaks refer to industrial production in 1937

Source: Lewis, W. A., Economic Survey 1919-1939, pp. 61-69.

Table IV

DOLLAR PRICES OF SELECTED MONEYS

	Average Price in February		Percent Decline 1929 to Feb. 1933	Average Price in		Percent Increase, Feb. 1933 to Jan. 1934
	1929	1933		Sep. 1933	Jan. 1934	
British Pound	\$4.857	\$3.422	30	\$4.665	\$5.032	47
French Franc		0.039		0.058	0.065	49
Austrian Pound	4.81	2.722	45	3.173	4.088	48
Canadian Dollar	0.992	0.835	16	0.965	0.992	19

Source: See Chandler, L. V., The Economics of Money and Banking, pp. 150-156.

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